UNIVERSITY OF ALBERTA

SCHOOL OF GRADUATE STUDIES

The undersigned hereby certify that they have read and recommend to the School of Graduate Studies for acceptance, a thesis entitled

"The World Bank and Economic Development--With Special Reference to Iraq"

submitted by Raymond Nimeh in partial fulfilment of the requirements for the degree of Master of Arts

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THE WORLD BANK AND ECONOMIC DEVELOPMENT--WITH SPECIAL REFERENCE TO IRAQ

BY

RAYMOND NIMEH

A DISSERTATION SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF ARTS

FACULTY OF ARTS AND SCIENCE

DEPARTMENT OF POLITICAL ECONOMY

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I also wish to sincerely express my deep gratitude to the University of Alberta and the World University Service for making it possible for me to study in Canada.

My thanks also go to Mr. Bruce Pinkney and Mr. Leif Grosseth for photographing and developing the map of Iraq.

R. N.

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E. K.

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PART I

THE WORLD BANK

There were in the past,
physical obstacles to
human well-being. The
only obstacles now are
in the souls of men.

Bertrand Russell.

CHAPTER ONE

THE CREATION OF THE WORLD BANK

Less than a quarter of a century after the first World War had ended the world was again at war to "end all wars." It seemed to the Allies that the economic chaos that prevailed during the interwar period was largely responsible for the rise of Hitler in Germany and thus constituted the real cause of the conflagration. To make the world "safe for democracy" after the military battle was won, an economic order had to be created out of the chaos and the possibility of a general economic breakdown at any period in the future had to be greatly reduced. Already the Axis were "winning" the propaganda war with their answers to the breakdown of world economy and their plans for a world economic order. But, of course, "The Nazi 'New Order'...and the 'East Asia Co-prosperity Sphere' of Japan were fascist answers... We must devise a democratic answer to this breakdown." [1]

The Allies were strange ideological bedfellows indeed. Communist Russia was one of the Allies and the possibility of her becoming the major antagonist of her allies was recognized and confessed. She, too, had her answers to the breakdown of world economy and had her plans for its salvation which, needless to say, were unacceptable to any or all of her allies.

The United States and Britain, to say nothing of France, had vague and academic answers to the breakdown and virtually no plan. The traditional isolationism of the United States had been an obstacle to international economic and political order.

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1 Alvin Hansen, "For a Stable World Economy", The Atlantic, vol. 176, No. 2, (August, 1945), 78.

Britain had a better record. Her greatest contribution to world economic cooperation was her advocacy of free international trade from 1846 - when the Corn Law was repealed - to 1870, the period during which free international trade was at its peak. After the 1870's the world reverted to high tariffs and other devices for restricting international trade, a policy which reached its peak during the Great Depression and continued long after it.[2]

An international organization which could have brought more economic order to the interwar period was the League of Nations. However, Woodrow Wilson, under whose presidency the United States liberalized some of the more restrictive laws against international trade, was not successful in making the U. S. Senate interested in the League. Without the United States, the League was greatly reduced in effectiveness, both in political and economic spheres.

Occasionally the League did make attempts at international economic cooperation. In the reconstruction period after the World War, it sponsored a sale of bonds by the Republic of Austria and assigned some distinguished economists to study various economic issues of international significance.

So the past provided the United States and Britain little basis for future action in the field of economic cooperation. Moreover, although the Americans had come to accept international economic cooperation as necessary in the Post World War II period, the British were doubtful. Lord Keynes was advised "on every side" that for Britain to survive "it would be needful to maintain

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2 Jacob Viner, "International Economic Cooperation", International Economics (Illinois, 1951), 285. For the "sorry record" of America's attitude towards international cooperation before the second World War, Cf., 283-285.

something like the war-time system, suitably modified, of tight controls, of blocked accounts and bilateral bargains; the various recipes devised by Dr. Schacht for Germany would have to be applied by Britain, it was hoped with greater skill."[3] Lord Keynes himself was in favor of cooperation with the Americans. It was evident that to create the new "democratic" economic order after the war, restrictions to free trade, such as import duties, import quotas, etc., must be reduced; currency and foreign exchange fluctuations and devaluations must be controlled; and international investment encouraged, especially to the war devastated countries for reconstruction and to underdeveloped countries for economic development. Thus even when Hitler's armies seemed victorious, the United States and Britain found it necessary to assign some of their greatest monetary experts to the task of devising new institutional frameworks for the achievement of better international economic cooperation in the postwar period.

Drafts of the proposals for both a stabilization fund and an international bank were prepared by Dr. Harry Dexter White of the United States Treasury Department in the early part of 1941. The early draft of the stabilization fund embodied provisions for the reduction of trade barriers which were later deleted from the fund and constituted the backbone of a new organization: The International Trade Organization. At about the same time, Lord Keynes, in his capacity as a special adviser to the British Treasury, was working on the draft of his "International Clearing Union". Both the American plan, generally known as the White Plan, and the British Plan, generally known as the Keynes Plan, were made public in 1943 in Washington

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3. Roy F. Harrod, The Life of John Maynard Keynes, (London, 1951), 525.

and London simultaneously. It is not the purpose of this thesis to compare and contrast the merits and demerits of each plan and then to cry disaster for the world because the Keynes Plan (or the White Plan, as the case may be) was not accepted in its entirety. Suffice it here to say that what resulted from the numerous meetings that were held in Washington between White and Keynes was an integration of the two plans.

In May 1944, the President of the United States, Franklin Delano Roosevelt, invited the representatives of 44 nations to attend a conference to be held at Bretton Woods, New Hampshire, from July 1 to July 22, 1944. The principal accomplishments of the Conference were the drawing up of the Articles of Agreement of the International Monetary Fund and the Articles of Agreement of the International Bank for Reconstruction and Development; the former is popularly known as the Fund and the latter as the World Bank.

Briefly, the Fund's major purpose is to "promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation."[4] The exchange rate of a member nation is kept stable by the purchase of foreign money from the Fund not exceeding 25% of its quota during any year, and not exceeding 200% at any time. The exchange value of a currency can be altered only to "correct a fundamental disequilibrium".[5] The major purpose of the World Bank is to "assist in the reconstruction and development of territories of members by facilitating the investment of capital

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4 United Nations, Proceedings and Documents of United Nations Monetary and Financial Conferences, I, (Washington 1948), 942-943 (hereafter cited as UN Monetary and Financial Conferences).

5 The concept of fundamental disequilibrium is not fully developed in the Articles of Agreement. See Alvin Hansen, America's Role in the World Economy, (New York, 1945), Appendix B, 187-192.

for productive purposes."[6]

The Fund and the World Bank are two organizations, each independent of the other. However, both propose to create a workable international economic system and the success of both is necessary for the achievement of that aim.[7] The Articles of Agreement of the Fund were more elaborately thought out, more detailed than those of the World Bank. For that reason they generated more criticisms and elucidations. The World Bank, on the other hand, "was looked upon as the less spectacular sister of 'The Fund,' and the burning controversy over the virtue of the elder sister let the bank develop in relative obscurity."[8] The prerequisite condition for a member of the World Bank to belong first to the Fund shows that in the minds of the founders the World Bank occupied a secondary status. Keynes was "content that the Bank should have a fairly orthodox structure. It was in the Fund that the new ideas would be tried out."[9] It is not very difficult to understand the British attitude. After the war, Britain would emerge as a debtor nation and in the foreseeable future there was little chance of Britain investing abroad any sizable amount. Keynes also was very cynical of the creditors' ability to recoup their foreign investments in total. Many of the Americans, however, were critical of the Fund as providing easy dollars for other nations; they preferred the World Bank and urged that it be given powers to make longer-term stabilization loans.[10] Professor Ragnar Nurkse finds that the World Bank is more important to the Fund than the Fund

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6 UN, Monetary and Financial Conferences, 1049-1050.

7 Arthur Smithies, "The International Bank for Reconstruction and Development", The American Economic Review, XXXIV, (December, 1944), 785.

8 Ibid., 785.

9 Harrod, The Life of John Maynard Keynes, 580.

10 Arthur R. Upgren, "The Hope of Bretton Woods", The Atlantic, vol. 176, No. 2, (August, 1945), 73.

is to the World Bank. He writes:

> The Bank could stand without the Fund, but the Fund would have a difficult time without a Bank. Without an adequate volume of reconstruction loans, the Fund quotas of many countries might come to be used up directly or indirectly for capital purposes, with the result that in a few years time the Fund would be more or less immobilized and the countries concerned would again be short of international liquidity.[11]

Also, a country may be in great economic trouble internally and yet not show it in her international balance of payments or not be short of international liquidity --- as the experience of Britain in 1925 - 1930 shows. For the long-run stability of the world economy, a growing international trade is of primary importance; my belief is that the World Bank, by helping economic development, contributes more than the Fund to that end.

During the two years after the conclusion of the second World War, the World Bank loaned the sum of $497 million to some European countries for the reconstruction of their war devastated economies. It soon, however, became evident to everyone concerned that the devastations resulting from the war were too great for the World Bank's capital to carry alone. More help had to be extended through other channels, and the Marshall Plan for European Reconstruction was launched in 1948. Ever since that date the World Bank has concentrated its activities solely on financing development projects. Our concern, therefore, will be on the World Bank's development activities.

The rest of Part I will be devoted to explaining the following points: (1) How the World Bank carries out its purpose of facilitating the investment of capital for productive purposes; (2) Why international investment had to be

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11 Ragnar Nurkse, "Conditions of Internal Monetary Equilibrium", Readings in the Theory of International Trade, The American Economic Association, (Philadelphia, 1949), 25

is to be a world bank. He writes:

> The bank could without [illegible], and the fund would have a difficult time without a bank. Money is an accepted volume of transaction [illegible]. The same problem of money [illegible] is going to be used to offer or indirectly for [illegible] purposes, with the result that in a few years then the fund [illegible] or less [illegible] and the companies concerned would again be [illegible] of international liquidity.[1]

Also, a country may [illegible] in order to [illegible] and yet not allow it to [illegible] balance of payments or not [illegible] of international liquidity --- as [illegible] of [illegible] in 1947 - 1950 [illegible]

[illegible] national [illegible] is of primary importance; [illegible] the world bank, by helping economic development, contributes [illegible] the fund to [illegible].

Money [illegible] be [illegible] consideration of the [illegible] the world bank loaned [illegible] of $47 million to some [illegible] for reconstruction of their war devastated economies. It [illegible] seems evident to everyone concerned that the devastations resulting from the war were too great for the world bank's capital to carry alone. There had to be [illegible] from other channels, and the Marshall Plan for European Reconstruction was launched in 1948. Even above [illegible] the world bank has concentrated its activities mainly on financing development projects. Of course, it therefore, will be on the world bank's development activities.

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[1] Harry Dexter White, "Conditions of Universal Monetary Stabilization", [illegible] Lecture I, Series of Lectures on [illegible], the [illegible] Collection, (Philadelphia, [illegible]).

a planned investment by an international organization; (3) Why there is so much concern, especially by the United States, over the development of the underdeveloped countries; and, (4) The World Bank's financial and technical assistance.

CHAPTER TWO

THE WORLD BANK'S METHOD OF FACILITATING INVESTMENT

The authorized capital stock of the World Bank is $10 billion and may be increased when the World Bank deems it advisable by a three-fourths majority of the total voting power. This capital stock is divided into 100,000 shares having a par value of $100,000.00 each. The shares can be subscribed to only by members and these members must first be members of the Fund. The minimum shares of the members are decided upon by the World Bank on basis of the national income of the country and the volume of its international trade. Each member has 250 votes plus one additional vote for each share of stock held. All matters before the World Bank, except those specifically provided for are decided by a majority of the votes cast. The United States and Britain alone have 43.57 per cent of the total votes. Each member government has a governor on the World Bank's Board of Governors and is represented by one of its sixteen Executive Directors.

A member country can deal with the World Bank "only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies."[1] By or through these agencies, the "Bank may guarantee, participate in, or make loans to any member or any business, industrial, and agricultural enterprise in the territories of a member."[2] However, these loans, participation in loans and guarantees are subject to the following conditions:

> (1) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the

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1 UN, Monetary and Financial Conferences, 1054.

2 Ibid., 1054.

Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(2) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(3) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(4) In the opinion of the Bank the rate of interest and other charges are reasonable and such rates, charges and the schedule for repayment of principal are appropriate to the project.

(5) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligation under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(6) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(7) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.[3]

The World Bank's intentions are not to replace private investors in the field of economic development but to encourage them. As the second condition above states, the World Bank will only make a loan itself when the project cannot be financed by private investors on reasonable terms. Even when private investment is not available for the specific projects, the loans made by the World Bank will have a stimulating effect on private investment by the use of the funds "chiefly to finance programs or projects which will eliminate bottlenecks to production, or which will generate increases in production of related goods or in related areas, or which will otherwise serve effectively to stimulate the revival or development of industry and agriculture."[4] Domestic investment is not included in the activities of the World Bank, and thus any stimulus the

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3 UN, Monetary and Financial Conferences, 1054.

4 International Bank for Reconstruction and Development, Second Annual Report, (Washington, 1947), 8.

economies of the member countries get from the clearing of a bottleneck will have to be financed by private investors, whether domestic or foreign; the World Bank's activities are restricted to long-term international loans or investment.[5]

Only twenty per cent of the price of each share is actually paid up: two per cent is paid in gold or United States dollars and eighteen per cent is paid in the currency of the member. The remaining eighty per cent is subject to call only when and as needed to meet obligations of the World Bank resulting from defaults or debtors and their guarantors. The World Bank can loan, or participate in lending, to the extent of the two per cent collected in gold or United States dollars at will and without any reservations; to loan the eighteen per cent collected in the currency of the member, the World Bank has to get the approval of the member concerned. Moreover, the World Bank can sell its own securities, bonds and debentures in the markets of its members and use the money thus collected to make or participate in loans. Here, too, the World Bank has to get approval of the "member in whose markets the funds are raised and the member in whose currency the loan is denominated, and only if those members agree that the proceeds may be exchanged for the currency of any other member without restriction."[6] However, at no time shall the "total amount outstanding of guarantees, participations in loans and direct loans made by the Bank ...

---

5 International investment is hard to define. "Perhaps the essential idea is investment ... outside the legal, monetary, fiscal, and economic system of the country from which the investment is made". See Norman Buchanan, "International Investment", A Survey of Contemporary Economics, II, edited by B. Haley (Illinois, 1952), 307.

6 UN Monetary and Financial Conferences, 1056.

exceed one hundred per cent of the unimpaired subscribed capital, reserves and surplus of the Bank".[7] The World Bank also has a special reserve which is made up of its income from charging a guarantee commission (the Articles of Agreement require that the Bank charge a commission at least during the first ten years of its operation) of not less than one per cent per annum and not more than one and one-half per cent per annum,[8] plus the margin left from the interest rate[9] charged after meeting the cost of borrowing and covering operating expenses. This special reserve will be available for meeting the World Bank's liabilities.

TABLE I
SUMMARY OF LENDABLE FUNDS
(Cumulative totals expressed in millions of United States dollars)

	June 30, 1956
2% portion of subscription of all members.....	178.4
18% portion of subscription made available by members.....	893.1
Total available capital subscription.....	1071.5
From sales of bonds.....	850.2
From parts of loans sold or agreed to be sold.....	272.1
From principal payments and repayments.....	161.8
Income from operations, including exchange adjustments....	159.5
Gross total.....	2515.1
Less funds disbursed on loans.....	1963.7
Balance.....	551.4

Source: International Bank for Reconstruction and Development, Eleventh Annual Report 1955-1956, (Washington, 1956), 12.

7 Ibid., 1054.

8 The policy of the World Bank has been to charge a uniform one per cent on the outstanding amounts of loans.

9 A general rise in money rates in the World's major capital markets caused an increase in the rates charged by the World Bank. The rate on loans of more than 15 years is raised from 3-3/4% to 4%, excluding the 1% commission. The rate for a shorter period was increased to 3-3/4%.

The total loanable fund of the World Bank as of June 30, 1956 amounted to $2, 515.1 million, as is shown in Table 1; the total disbursements since the World Bank began operations amounted to $1,964 million.

The two per cent of the countries' subscriptions amounted to $178.4 million. The eighteen per cent of the countries' subscriptions amount to $1,629.1 million; but only the sum of $893.1 million (an addition of $128.6 million over that of the preceding year) was lent by the World Bank or allocated for future disbursement: the reason is that the members concerned have either not given permission for the World Bank to use the fund or placed restrictions on the use of the fund which prevented the World Bank from using it. In 1948 the United States approved the use of all of the 18% of its capital subscription amounting to $575.1 million and the other countries' contribution from the same source has increased from $2.0 million in 1948 to $321.6 million in 1956. Seventy-two million dollars was raised through parts of loans sold or agreed to be sold for private investors, thus increasing the total to $272.1 million, of which sales to purchasers outside the United States represents 57 per cent and purchasers in the United States 43 per cent. Principal repaid to the World Bank and available for new lending amounted to $22.5 million during the period beginning in July 1, 1955, to June 30, 1956---making the total amount to $161.8 million. Income from operations, including

exchange adjustments amounted to $30.9 million.[10] From the sales of bonds, the World Bank obtained $850.2 million as of June 30, 1956. About 55 per cent of the bonds outstanding was owned by investors in the United States and about 45% by investors in other countries. The share of the other countries was only 20% in 1952. Thus it is evident that although the United States has so far contributed most to the working capital of the World Bank, the other member nations have been increasing their share at an increasing rate ever since 1948.

The total unloanable fund of the World Bank as of June 30, 1956 amounted to $227.7 million, of which $77 million was derived from commissions charged (1%) and was appropriated to Special Reserve to be kept available for meeting obligations of the World Bank, created by borrowing or by guaranteeing loans. The remainder, $150.7 million, was derived from the World Bank's income from the interest rate, after meeting costs, and was appropriated to a Supplemental Reserve against losses on loans and guaratees made by the World Bank. Although the repayment of the principal of the loan and the payment of interest and other charges on the loan must be guaranteed, the projects for which the loans are being asked will also have to be studied thoroughly by a competent committee before the World Bank agrees to make the loan. The World Bank's loans must moreover be spent on specific projects, except in special cases: the special cases arise from the fact that industrialization creates imports of products unobtainable in the home market,

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10 A member country whose currency has depreciated or its par value decreased has to pay to the World Bank an additional amount of its currency sufficient to maintain the value, as of the time of initial subscription, of the amount of its currency held by the World Bank. In case of an exchange rate appreciation and an increase in the par value of its currency, the member country will be paid the difference by the World Bank.

and at least in the earlier stages it reduces exports below their former level. The discrepancy arising in the balance of payments of the member countries due to these factors could also be met by exchange control, higher tariffs and other means of restricting imports, actions which reduce the volume of international trade; in such special cases the World Bank would extend a loan.

In short, the World Bank is carrying out a planned and rigid international investment program for economic development, the need for which will be discussed in chapter 3.

CHAPTER THREE

REASONS FOR PLANNED INTERNATIONAL INVESTMENT

During the time the monetary experts of 44 nations were gathered at Bretton Woods to discuss the Fund and the World Bank, voices were heard, especially in the United States, urging that international investment should be left in the hands of private investors who, led by the profit motive, would put their capital to the best possible use.

> Under a free world economy, with private lenders risking their own funds and borrowers seeking to meet their requirements, loans would go to the countries and projects that offered the most attractive loans commensurate with the best prospect for repayment. This means, in general, that capital would go into the countries providing the soundest conditions and into projects promising the greatest economic success.[1]

The critics have pointed out that British, French and, to a lesser degree, German private capital, flowing freely to the areas of highest profit, was largely responsible for the economic development of the lesser European states and North America.[2] The same ends could be attained, it was argued, by the same means in the underdeveloped countries of today.

The system which worked wonders in Europe and in the European settlements overseas did not have the same desirable effects in other areas, especially those under colonial rule. The main concentration of the European capital was in the extractive industries where the raw

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1 Editorial, "An International Bank", The New York Times, (July 19, 1944), quoted by George Halm, International Monetary Cooperation, (New York, 1945), 183n.

2 Shepard Clough and Charles Cole, Economic History of Europe, (Boston, 1952), 657.

material extracted would be exported to meet the industrial need of England and Europe. The native people provided mainly cheap labor and there was little effort on the part of the Western investors to impart industrial skills to the local people or to establish industries which catered to the domestic market. The nineteenth-century type of private investment, based on the principles of laissez-faire and of the maximization of private profit.....

> ...destroyed the market for traditional handicraft skills, upset the age old balance of occupations, and destroyed the economic bases of the ancient society. Public works and transport systems, large-scale enterprise, scientifically controlled plantations, as well as the less obvious but greater innovations of law and public order certainly increased productivity. Earning power and consumption per capita were greater at the end than at the beginning of the nineteenth century in most colonial countries. But the organizing and governing skills remained in the hands of the Western peoples. The Colonial peoples, with few exceptions, had not been encouraged to become competent.[3]

The same trend is evident in the investment of American private capital in underdeveloped countries since the second World War. Of the total amount of American direct investments outstanding in underdeveloped countries at the end of 1948, 59% was invested in petroleum, mining and other extractive industries. In Canada and Western Europe, 59% of the total amount invested at the same period was invested in manufacturing and distribution. The total investment outstanding was just over five billion dollars in each group.

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3 J. B. Condliffe, The Commerce of Nations, (London, 1951), 316.

TABLE 2

PERCENTAGE DISTRIBUTION OF U. S. DIRECT INVESTMENT IN 1948

	Underdeveloped Countries	Developed Countries
Extractive industries.....	59	23
Manufacturing and distribution.....	22	59
Public utilities.....	16	7
Miscellaneous.....	3	11
	100	100

Source: U. S. Department of Commerce[4]

To Dr. Nurkse, whose thesis is that investment, whether foreign or domestic, is limited by the size of the market, the lop-sided development which resulted was inevitable. The reasons lie in the smallness of the domestic market in the colonial areas, and the expanding markets for primary products in the world's industrial centres. Can the individual foreign investors break through what he calls the "vicious circle of poverty" and increase the size of the market? The answer is no. "A private investor", writes Dr, Nurkse, "may not have the power, even if he had the will, to break the deadlock caused by low productivity, lack of real buying power and deficient investment incentives in the domestic economy of a backward area."[5] In the opinion of another economist, the development of the under-

4 Reproduced by Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries, (Oxford, 1953), 84.

5 Ibid., 28. On page 85 he writes more explicitly: "The individual foreign entrepreneur has not the incentive or even the means to defeat this vicious circle". Cf., 24-30 and 82-89.

[illegible]

[illegible]	[illegible]	23
[illegible]	[illegible]	[illegible]
Table [illegible]	16	7
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

developed countries cannot be achieved by the reliance on the old ideologies because these ideologies "had nothing to contribute as a positive solution except the maintenance of a free price and exchange market. If the older ideologies prevail, the backward countries can be expected to remain very largely economic colonies."[6]

However, even foreign investment in extractive industries in underdeveloped areas is not moving in large quantities, but has slackened down considerably.[7] There are possibly two reasons for that. After the second World War many of the colonies emerged independent with strongly nationalistic governments who strove to attain a higher standard of living for their peoples. Foreign capital and foreign advisors were suspect ; the withdrawal of Western technicians impoverished these countries still further, Moreover, the already existing foreign enterprises in these ex-colonial countries were being nationalized by governments who hoped to gain popular favor or wipe out the last vestige of an unpleasant memory. The effect of this was to make prospective investors shift their emphasis from profit to safety.[8] As Jacob Viner put it,

> ...until something is done to rehabilitate the rights of the creditor, it will be a venturesome American investor, indeed, who will place sizable funds on other than a speculative basis and at speculative terms in the securities of any of a very long list of foreign countries. Direct investment by corporations, also, now faces legal and political hazards of a kind which did not need seriously to be taken into account before 1914.[9]

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6 A. Hansen, America's Role in the World Economy, (New York, 1945), 184.

7 Nurkse, Problems of Capital Formation in Underdeveloped Countries, 87. He writes: "There is only a small trickle of [foreign investment of the traditional type] now".

8 Norman Crump, The ABC of Foreign Exchange,(London, 1951), 11th ed., 147.

9 Viner, "American Lending Policy", in International Economics, 340.

The second explanation for the slackening of investment even in the extractive industries is that the growth of the market for those products has not been at the same rate as during the nineteenth century. After the second World War, the European nations which largely constituted the market for these primary products emerged weak and very much impoverished. America, greatly relying on its own production of foodstuff and raw material, did not replace the European markets, and the discovery of synthetic substitutes changed the demand for them.[10]

Left in the hands of private businessmen, international lending and borrowing are liable to be chaotic and unstable. Great damage was done to world economic stability in the interwar period by the erratic flow of private short-term capital. Following the projects which would yield the maximum profit, an investor in foreign bonds would sell in one country to buy in another. During the late twenties, American investors lost their liking for German bonds, preferring the possibility of higher returns in the rising market of American equities, and because these loans were made to improve housing and beautify cities, the German economy and with it the economy of the world was subjected to severe fluctuations. In such circumstances, the debtor nations could pay higher interest rates to halt the outflow and by so doing discourage domestic investment and burden their balance of payments with heavier fixed commitments than they could afford. They could also depreciate their currencies, deflate prices, increase tariffs to restrict imports,

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10 Nurkse, Problems of Capital Formation in Underdeveloped Countries, 87.

or use other means which would lead to the restriction of trade and world economic growth, and the spread of unemployment. On the other hand, the inflow of capital from abroad might pour into a country at excessive rates thus starting an inflation.[11]

The inflation of the twenties, the depression in Britain in 1925 and the World Depression of the thirties all brought to an end the complete domination of the so-called classical school's approach to economic affairs and problems. Factors which were completely overlooked or taken for granted now manifested themselves in unequivocal terms. For obvious reasons the assumption of full-employment had to be abandoned and with it the emphasis on distribution. The economists' worry, together with that of the politicians', was directed towards the study of the determinants of the volume of production and employment: Ricardo was replaced by Malthus, Marshall and Pigou were replaced by Keynes. Adam Smith's basic concept or theme of individual self-interest as "naturally, or rather necessarily" leading to the benefit of society as a whole was savagely attacked and discredited, and government which he deeply distrusted came to the forefront as a strong factor in stabilizing the economy and maintaining a high level of employment.

Concerning the above points, Lord Keynes wrote the following during the crucial years:

> Let us clear from the ground the metaphysical or general principles upon which, from time to time, laissez-faire has been founded. It is not true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is no 'compact' conferring perpetual rights on those who Have and those who Acquire. The world is not so governed from above that private and social interests always

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11 Unless, of course, deflationary measures are taken in the country of investment.

coincide. It is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally is enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit, are always less clear sighted then when they act separately.

We cannot, therefore, settle on abstract grounds but must handle on its merits in detail, what Burke termed 'one of the finest problems in legislation, namely, to determine what the State ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible to individual exertion'.[12]

Not only in the highly developed industrial nations were governments stepping in to equate savings and investment at high levels of employment, but even in underdeveloped countries governments were undertaking development projects of huge magnitudes. The war had also dispelled whatever doubts there had been about the efficiency and feasibility of government management and control. "To a huge degree the world is experiencing what might be called the 'socialization of investment', i.e., transfer of control over investment from private to government hands."[13]

For these various reasons, Mrs. Joan Robinson believed that "...no mechanism has yet been suggested which prevents lending from being erratic in modern conditions, except long-term international planning, which has many obstacles to overcome both in America's ideals of individualism and in the nationalism of prospective borrowers."[14]

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12 John Maynard Keynes, "The End of Laissez-Faire", Essays in Persuasion, (London, 1931), 312-313. Italics in the original.

13 R. F. Wickesell, "The International Monetary Fund 1944-1949", International Conciliation, (Carnegie Endowment for International Peace), (New York, 1949), 835.

14 Joan Robinson, "International Currency Experience", a book review, Economic Journal, LV, (December, 1945), 406.

CHAPTER FOUR

THE CONCERN OVER THE DEVELOPED COUNTRIES

The problem of how to raise the standard of living of the underdeveloped areas has become a major field of study for economists in the last decade and a half. A myriad of books and articles has been written on the subject by economists of diverse nationalities and backgrounds, and agencies from various developed countries have been dedicated to that task. However, the emphasis in this section will be on the motives behind the United States' concern over the fate of the underdeveloped countries. This approach can be justified on the grounds that these countries have occupied an integral part in the foreign policy of the United States during both the Democratic and the Republican administrations, and the bulk of the capital invested in these countries has come, and will continue to do so for a long time, from that country. The motives will be divided into three major categories: humanitarian, political, and economic.

A. The Humanitarian Motive

The United States' concern over the poverty in other countries has been often linked with its "traditional" sympathy "for the economic progress of countries less fortunate than [its] own." 1

Before the second World War, capital movements from the United States to other countries for charitable purposes was channeled almost exclusively through private institutions. The United States Government considered relief a job for private charitable institutions and so made very few grants to the war devastated countries of Europe after the first World War. A considerable change, however, took place in the outlook of the United States Government,

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1 Committee for Economic Development, Economic Development Abroad and the Role of American Foreign Investment, (New York, Feb., 1956), 1, (hereafter cited as CED, Economic Development Abroad).

concerning relief and charity, after the second World War. The devastatious of this war were so enormous that they could not be relieved by individual donations or the activities of private foundations.

The concern of the United States Government over the reconstruction of the devastated countries of Europe to regain their economic strength and the development of the underdeveloped countries to raise their standard of living manifested itself though its large-scale participation in the World Bank. It was only in 1948 when the world economic situation was getting worse and communism spreading that the United States Government began to make outright grants for European reconstruction. The development program was also stepped up and in 1950 President Truman announced, in his inaugural address, a program for the development of the underdeveloped countries.

Although there still is considerable capital movements from the United States which is destined for purely charity purposes, yet to understand why economic development has become part of the United States Government's foreign policy we must study the political and the economic interests of that country. The United States "is concerned with development [of underdeveloped countries] primarily because important national interests are involved."[2]

B. The Political Motive

After the second World War, the underdeveloped countries acquired new importance and weight in international politics. The world was split between two diametrically opposed ideological blocs; Russia and her satellites made up the Communist Bloc, and the United States and her allies made up the Capitalist Bloc. The Communist Bloc presented a unified front and was bent on the destruction of the capitalist system

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2 CED, Economic Development Abroad, 5

and the establishment of the state of the proletariat. The Capitalist Bloc was ideologically less homogeneous and politically less unified; but, led by the United States, it was nonetheless adamant against Russian expansion and leadership. The many underdeveloped countries that became independent after the second World War were weighing the merits of the two contending ideologies so as to follow the path which they thought promised them most; their decision became of the utmost importance since they comprised areas of largest population and because they were rich in raw material deposits----vital for both war and peace.

Russia moved swiftly after the war and spread its influence over all Slavic Europe, Eastern Germany, and Eastern Austria. In China, by 1949, the Kuomintang was overthrown and a People's Republic was established. In many European, Asian, and African countries the communist party was gaining popularity and influence. In Greece, northern Iran, and Southeast Asia pro-Russian uprisings were under way. South Korea would have ended up as a Russian Satellite but for the military intervention of the United States.

The great attraction of communism for the newly independent, impoverished peoples of the underdeveloped countries is easy to understand. The war had proven beyond any doubt that Russia had succeeded in industrializing her economy with virtually no foreign assistance and the vision of doing the same in their own countries appealed strongly to the leaders of these peoples.

The policy of the United States in fighting communism in these areas was at first a negative one which dealt with matters beyond the intellectual grasp and the imagination of the peoples involved. More-

over, the tragic experiences of the capitalist societies during the depression of the thirties were used as a "proof" to the unbeliever that capitalism carried within itself the germ of its own destruction and that another such experience would completely disintegrate the Western capitalist societies.

For these various reasons, the United States had to modify its negative anti-communist policy and substitute for it a constructive, positive one. The lot of the peoples of the underdeveloped areas of the world had to be improved by accelerated economic development within a "democratic" framework; the economy of the United States had to be based on strong foundations so as to prevent any major economic breakdown and mass unemployment at any time in the future.

The economic development of the underdeveloped countries can take place in two ways----from within the country itself without foreign help, or from outside the country with foreign help. The first method can be accomplished by cutting down on the consumption of both imported and domestically produced goods and diverting the resources of the country to the production of capital goods.[3] In the period between the two wars Russia set aside about thirty per cent of its national income in capital formation. This method entails great sacrifices during the development period and, in most underdeveloped countries, will drop the standard of living below the level of subsistence. It is doubtful whether this method could be carried out without the use of force, for it will lead to discontent and revolutions. The second method of economic development can be achieved by using the savings of other nations ---through borrowing----for capital formation and thus avoid severe

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3 Stephen Enke and Virgil Salera, International Economics, (New York, 1953), 2nd ed., 508.

ever, the heroic experiences of two capitalist societies during the depression of the thirties were used as a "proof" to the unbeliever that capitalism carried within itself the germ of its own destruction [illegible]

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[3] [illegible]

deprivations and hardship. This latter method would more likely bring with it skills and talents which are of paramount importance for rapid ecomomic dvelopment; the money and the skills would come from the West, especially from the United States, and with them the spread of the Western ways of life and thought. Accelerated economic development, the American experts had reasons to believe, would relieve the pressure of over-population in the rural areas where "rising resentment is a major threat to political stability"[4] and would accelerate the growth of industry and commerce

> ...to provide more jobs and opportunities for the members of the urban middle classes. Programs of national economic development can help channel the ambitions and energies of this leadership group into constructive national action and away from negative anti-westernism".[5]

The Russians attacked the whole scheme, accused the United States of using its dollars to further its political interests, and called it the "Dollar Diplomacy". For this reason and maybe another (see pages 42-43 below) the communists have so far refused to join the Fund or the World Bank.

The nearest Eugene Black, the World Bank president, came to confessing the anti-communist motive of the World Bank was in an interview with Time magazine in which he was quoted as saying, "We do our damnedest to spread capitalism".[6] But he denied later in the interview that the World Bank has any one national interest in mind:

> 'When I am doing this job I am international. As a business corporation, we are not plagued by the multitude of difficult questions that can arise when one sovereign nation treats with another. We cannot be charged with invading national sovereignty,

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4 CED, Economic Development Abroad, 6.

5 Ibid., 7.

6 Time, "Bearer of Light", LXVII, (June 25th, 1956), 82.

with economic exploitation, or with political discrimination. The World Bank has no interest except to help members.'[7]

Nevertheless, the World Bank was accused of political discrimination. On November 13, 1952, the Iranian delegate to the General Assembly of the United Nations "unequivocally implied that the International Bank refused Iran a loan because of Britain's objection to the nationalization of the oil industry".[8]

In the past ~~important roles~~ finance has often played important roles in international politics. For example, after the first World War, France refused a reconstruction loan to Austria; but "it was not a question of not wanting to help Austria so long as the latter pursued a policy which was not in accordance with French interests, but a question of wanting to compel her to change her policy by means of financial pressure".[9]

Although the World Bank can make decisions uninfluenced directly by political considerations, it has to reckon with other factors which exert equal pressure and are as effective in directing its decisions. This fact was recognized by John McCloy, first president of the World Bank, when in an address he stated that the preponderance of the United States as the source of the World Bank's lending capital causes it to attach great importance to the views of the American investor and conduct its activities in such a way that its bonds will be considered a sound business risk by the United States financial community.[10] Moreover,

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7 Ibid., 83.

8 Benjamin Shwadran, The Middle East, Oil and the Great Powers, (New York, 1955), 177n.

9 Paul Einzig, Finance and Politics,(London, 1932), 18. See also Viner, "In Defence of 'Dollar Diplomacy'", International Economies, 345-350.

10 International Bank for Reconstruction and Development, 2nd Annual Meeting, 7.

a member country has the right to veto the use of the 18% of its capital subscription.

How effective is economic development in checking communist expansion?

The communist aggression in Korea has proven that if the United States wants to check communist expansion the use of force is necessary. The underdeveloped countries are unable to defend themselves alone against aggression similar to that in Korea, for their economies are too weak to maintain formidable armed forces. For this reason, American military aid has come to complement its economic aid to the more "friendly" nations. However, communism as an ideology cannot be completely suppressed by American military might, especially when the communists gain popularity in a democratic election. It is believed that economic development can replace communism as an ideology.

This belief is based on the assumption that the peoples of the underdeveloped countries are only attracted to communism for what it promises them in the way of material welfare and that it is only their poverty which drives them into communism. To my mind this is only part of the truth and more important factors have been overlooked.

To begin with, history has supplied us recently with various instances where economic development did not prevent the rise of nations whish were undemocratically governed, hostile, and aggressive- i.e., Germany, Italy, and Japan. In Britain, France and the United States, economic development led to territorial expansion and, in the case of Britain, to the establishment of the greatest empire the world has ever seen. Their use of power was not always tempered by "liberalism, humanitarianism and democracy".

Economic development in the Western way is an extremely slow process, and years might pass by before its effects are felt. It lacks the adventurous spirit and does not carry with it a new ideology which makes the people identify themselves with it and by taking part in its success realize a dream or a hope. Communism promises, rightly or wrongly, rapid change and adventurous, active participation in that change. The loss of personal liberty, to those who have been long denied it, will not be greatly missed, and the loss of a "few" heads and institutions will be regarded as a necessary step for the rapid achievement of a cause.

In conclusion, although the economic factors are crucial in the fight against communism, yet the causes of political unrest in the world cannot be cured by economic measures alone.

The Economic Motive

The large-scale participation of the United States in foreign investment has been linked with the concern for its future and that of other industrialized economies of the world. The problems that international investment is being used to help solve are the so-called "dollar shortage", cyclical unemployment, and the "saving-investment" problem or the fear of secular stagnation. Cyclical unemployment and secular stagnation are referred to as the nightmare of the industrialized, more developed economies.

The diversity of its resources and productive power, its large internal market, and its large reserves of gold have all enabled the United States to occupy a place in the world economy which is out of proportion to its size and population. Table 3 indicates the indust-

[illegible]

non-Communi

rial power of the United States as compared with other nations of the World.

TABLE 3

DISTRIBUTION OF WORLD MINING & MANUFACTURING PRODUCTION 1948[11]

	Per Cent		Per Cent
Africa	1.3	Europe	29.9
Union of S. Africa	0.9	Austria	0.5
Other	0.4	Belgium	1.8
		Denmark	0.4
North America	60.9	Finland	0.5
Canada	3.6	France	4.1
United States	54.4	Saar	0.2
		Germany (west)	4.6
Latin America	4.3	Greece	0.1
Argentina	1.1	Ireland, Rep. of	0.1
Brazil	0.9	Italy	2.1
Chile	0.3	Luxembourg	0.1
Mexico	0.7	Netherlands	1.1
Other	1.3	Norway	0.4
		Spain	0.4
Asia	3.1	Sweden	1.4
India	0.7	United Kingdom	11.7
Japan	1.5	Yugoslavia	0.4
Turkey	0.2		
Other	0.7	Oceania	1.4

Source: The Economic Almanac 1956, 518.

North America's share of the world's mining and manufacturing production amounted to 60%. Europe's amounted to about 30%, and the rest of the world, which includes the bulk of the world's population, slightly more than 10%.

The United States' large internal market, its productive capacity, and its relative abundance of domestic raw material sources have made it

11 These figures exclude the Iron Curtain countries.

largely self-sufficient and thus not so much dependent on international trade, relative to its gross national product, as the rest of the world. The United States, in 1954, had a gross national product of $360.5 billion and its imports for that year were equal to $10,209 million.[12] The rest of the world has not only a greater average propensity to import but also a greater marginal propensity to import from the United States, as is shown in Table 4.

TABLE 4

INTERNATIONAL COMPARISON OF MARGINAL AND AVERAGE PROPENSITIES TO IMPORT

	Marginal propensity to import (1924-1938)	Average propensity to import(1924-1938)
A. Industrial group:		
U. S. A.	0.07	5.0
Germany	0.24	19.6
U. K.	0.29	23.1
France	0.31	22.0
Japan	0.33	20.3
Sweden	0.34	20.4
B. Agricultural group:		
Canada	0.30	18.9
Australia	0.35	15.5
New Zealand	0.46	26.0
Norway	0.47	34.7
Denmark	0.54	41.8
Austria	0.72*	18.4

* 1929-1935

Source: Tse Chun Chang, Cyclical Movements in the Balance of Payments, (Cambridge, 1951), 24 and 37.

12 The Economic Almanac 1956, 444 and 481.

largely self-sufficient and thus not so much a product on labor-
[illegible] of [illegible], resulting in the -case-building industry, in the
rest of a vessel. The United States, in 1955, had a gross national
product of [illegible] billion as the [illegible], or about [illegible] times equal
to [illegible] billion. The rest of the world are not only a number
[illegible] to [illegible] but also [illegible] numerically
to [illegible] the United States, as is shown in Table [illegible].

[illegible] in Table

[illegible]
to Figure ([illegible]) to [illegible] ([illegible])

a. [illegible]

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]		
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

b. [illegible]

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

This means that an increase in the income of the rest of the world would stimulate American exports more than an increase in the income of the United States would stimulate the exports of the rest of the world. In 1953 the national income of the United States was $303.6 billion, an increase of $14.1 billion over that of 1952. This increase in the national income induced ~~an~~ additional imports of $154 million while its exports increased by $573 million.[13]

After World War II, the need of the war-devastated countries of Europe for American imports for consumption and reconstruction caused a grave disequilibrium in the balance of payments of those countries. International assets were drastically redistributed as a result of the war: before the American Lend-Lease came into effect, Britain had to liquidate a large portion of its assets to pay for the war. Although the Marshall Plan helped in filling the gap in the balance of payments of the European countries, it did not solve the fundamental problem of the dollar shortage which was due to the disequilibrium in the balance of world trade. The increase in the aggregate income of the European countries after reconstruction generated still further an increase in the demand for imports.

International investment is one way of providing dollars to fill the gap. Because the loans made by the World Bank are untied loans, more than one country is liable to benefit from the dollars made available. In 1956, only 50% of the loans disbursed that year by the World Bank were spent by borrowers for imports from the United States. Some 41% were spent for imports from member countries in Europe, 7% in

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13 The Economic Almanac 1956, 444 and 481.

Canada, and 2% in all the other countries.[14] As a corrective of disequilibrium of the balance of payment, international investment creates the long-run problems of repayment of capital and payment of interest.

In the nineteenth century, Britain, then the chief lending country, "constituted a market with unlimited possibilities of expansion for the produce of the countries to which she lent; and her lending served to increase the output of precisely the commodities which she was ready to consume".[15] Britain also pursued a policy of free trade. But American foreign investment in the twentieth century, in Germany after the first World War and in the underdeveloped countries after the second, is fundamentally different. The United States does not seem to want the exports of her debtor countries and is unwilling "to increase her imports in proportion to the growth of her interest claims".[16] The practice now is to lend more, but this would only postpone the day of payment while enlarging the debt. For that reason, America is required to make far greater internal adjustment than was required by Britain, or other European investing nations abroad, during the nineteenth century if it expects to recoup its investments abroad.[17]

The persistent dollar shortage in the balance of payments of the rest of the world is believed to be largely due to the refusal of

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14 International Bank for Reconstruction and Development, Eleventh Annual Report, 1955-1956, (Washington, 1956), 17.

15 Royal Institute of International Affairs, The Problem of International Investment, (London, 1937), 13.

16 Ibid., 13.

17 Enke and Salera, International Economics, 509n.

America to take payment for its exports through reduction in its import tariffs. The economic preponderance of the United States has disrupted the pattern of world specialization which to some was the fundamental cause that brought about the depression of the thirties.[18] This fact led some writers to the belief that the only sure way of averting another world wide depression was to reduce the economic preponderance of the United States, and because the Bretton Woods Agreements did or could, in their opinion, do little to reduce that preponderance, the institutions were doomed to failure.[19]

Not all the balance of payment difficulties are due to the high tariffs on imports to the United States, although it is common practice nowadays to speak of any difficulty in the balance of payments as a dollar shortage. The term is used to denote the lack of gold or convertible currency to pay for the imported goods. The "dollar shortage" may be due to many causes: in the case of Britain, the dollar shortage is due to the loss of her enormous overseas wealth during and after the second World War; in countries where large investment programs are being undertaken for economic development, imports of capital and other goods would increase and exports tend to decrease during the development period; unchecked inflation would encourage imports, for foreign goods become cheaper relative to domestic goods and so more profitable; and lastly the insufficiency of American imports due to probably too high tariffs. To solve the balance of payments problem, inflation must be checked, more productive resources put into exports, and exports must be

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18 Condliffe, The Commerce of Nations, 450.

19 R. P. Schwartz, "Bretton Woods", The Fortnightly, (October, 1944), 201.

offered at competing prices. A great industrial nation like the United States must, in order to find permanent markets for its exports and recoup its investment abroad, reduce its own tariffs and persuade others to do the same. It is argued that major cuts in the American tariff structure would cause drastic changes in the structure of American industry and employment which might have world repercussions. Factual data concerning the adaptability of the American economy to the competition of increased imports are sparse, but "the remarkable ease with which the American economy shifted from war to peace production after 1945 or with which it accomodated to a drop in net exports from $11.5 billion in 1947 to $2.2 billion in 1950 should at least call in question some of the more fearful views often expressed on this score".[20]

Although international trade is steadily approaching a more balanced pattern, United States aid and military expenditure still make up the most important part of the total dollar receipts of the rest of the world. As Table 5 shows, the United States had, in 1955, an active balance of payments on private transactions equal to $3305 million, an increase of $955 million over that of 1954. In 1955, the total of United States government net expenditure abroad was about $4.8 billion. The point to notice here is that the net private U. S. capital outflow amounted to only $767 million in 1955, a decline of $557 million over that of 1954. The experience of 1955 "is not very encouraging to hopes that private capital movements might be relied upon in present circums-

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20 Buchanan, "International Investment", A Survey of Contemporary Economics, 323.

tances to offset or to mitigate short-term disequilibria in international payments. The reason appears to be partly that the monetary policies of surplus and deficit countries are not always such as to bring about an appropriate differential between the interest rates in the two groups of countries, and partly that considerations of profitability are often outweighed by considerations of exchange risk which are a deterrent to the movement of funds to countries in weak payment positions."[21]

TABLE 5

UNITED STATES: SUMMARY OF BALANCE OF PAYMENTS, 1954 AND 1955
(in millions of U.S. dollars)

	1954	1955	Change
Private transactions			
Merchandise: Exports, f.o.b.	12,814	14,264	1,450
Imports, f.o.b.	-10,354	-11,516	-1,162
Trade balance	2,460	2,748	288
Service (including private donations) net	1,214	1,324	110
Capital Movements	-1,324	- 767	557
Balance, private transactions	2,350	3,305	955
Government transactions, net	-3,993	-4,844	-851
Errors and omissions	178	451	273
Gold and dollar transfers to official holders in rest of world	1,465	1,089	-377

Source: International Monetary Fund, Annual Report 1956, 28.

The abnormal increase of unemployment during the thirties brought forward the principle that the primary aim of government policy must be

21 International Monetary Fund, Annual Report 1956, (Washington, 1956), 20-21.

the achievement and the maintenance of full employment. However, it was not until 1944 that the British government, in its White Paper on Employment, promised to maintain a high level of employment after the war. The United States Employment Act of 1946 promised to promote "employment, production and purchasing power".[22] All these terms were left quite ambiguous, but the fact remains that the prevention of abnormal unemployment has become the conscious concern of governments.

International investment has been strongly advocated as a means for achieving and maintaining a high level of employment. International investment provides foreign currency to borrowers with which they can increase expenditures on the export goods of the lending country, and, if spent on economic development, the absolute demand for goods in general (domestically produced and imported) would increase as income increases, thus expanding international trade. Exports are favored because they expand income and employment,[23] and it has been found that economically developed countries are better customers of each other than economically underdeveloped countries:

> As they became industrialized, Germany, the United States, and later Japan, became better customers of industrial Britain, while the manufactured goods they produced were of a character that could be sold only in other industrialized countries with high purchasing power....The future of international trade does not lie in the creation of new empires, but in the elimination of trade barriers

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22 Alvin Hansen, Business Cycles and National Income, (New York, 1951), 529.

23 Of course, less than full employment is assumed. If full employment has been achieved by domestic measures, then foreign investment would reduce domestic consumption and divert capital, enterprise, and employment from industries producing goods for local consumption to industries producing goods for export. Capital outflow would also keep the rates of interest high and thus discourage domestic investment.

and, above all, in the industrial development of what have hitherto been backward economic areas.[24]

The expansion of trade with the underdeveloped countries is of vital importance to Britain and Japan. Britain lost a great deal of her assets abroad in payment for the cost of the war and to make her loss good Britain must increase her exports. After the loss of her possessions and the reduction of trade with Communist China to almost nil, the exports of Japan have shrunk to about half of what they had been before the war. Unless the Chinese market for Japanese goods is replaced by other markets, it is doubtful whether Japan could for long obey America's wishes of not trading with Communist China.

The World Bank demands that its loans be used for importing the essential materials required for the economic development projects specified; all local expenditures are required to be financed by the local governments with local currency. Due to the industrial capacity of the United States, a large percentage of the essential materials for development would be imported from that country; the result is a stimulating effect to the capital goods industry, the industry most subject to fluctuations in the United States. About 62% of the World Bank's disbursements during the ten years of its operations have been spent in the United States.

The fear of stagnation in the industrialized economies, especially that of the United States, is really only another phase of the unemployment problem. The stagnation theory goes back to Ricardo, Mill, and Malthus who, assuming the supply of land to be limited, believed

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24 Condliffe, The Commerce of Nations, 280.

that population and capital pressures on land would set in diminishing returns. To Ricardo and Mill, this decreasing rate of profit would ultimately reduce saving and investment to nil and then a stationary state would follow at full employment. The modern theory of stagnation was fully developed by Professor A. Hansen who based his system on Keynes' concept of the secular decline in the marginal efficiency of capital. The marginal efficiency of capital would fall as the stock of capital assets increases relative to the labor force and natural resources, given the state of technological knowledge. Investment, determined by the marginal efficiency of capital and the interest rate, would fall and, unless the marginal propensity to consume increases, unemployment would be the result. Equilibriun would be at leas than full employment when saving from the reduced income would be equal to the aggregate investment opportunities that are profitable to make. In such cases, it is believed, large-scale international investment would keep the marginal efficiency of capital high, equate savings and investment at a high level of income, and increase the consumption of goods via exports.[25]

It was thought that the high level of international investment during the early twenties was responsible for the prosperity and the high level of employment which prevailed during those years. This has been questioned recently for many reasons. Data were produced to show that international investment could not have been responsible for the

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25 For a critical discussion of Hansen's stagnation thesis see Moses Abramovitz, "Economics of Growth", in a Survey of Contemporary Economics, [redacted], 167-173. See also Alan Sweezy, "Secular Stagnation?", Postwar Economic Problems, ed. Seymour Harris, (New York, 1943), 67-82.

prosperity and the high level of employment which existed in the '20's.

> A...study by the Bureau of Labor Statistics concludes that in 1939, $3.3 billion of exports accounted, directly or indirectly, for the employment of 960,000 persons, which was 3.2 per cent of all non-agricultural employment. On the assumption that approximately the same proportions would hold for increases in exports, one could say that an additional $1 billion of exports in 1939, induced by foreign investment of an equal amount, would have increased non-agricultural employment in the United States by 287,000 persons, or by less than one per cent of total non-agricultural employment. Clearly, a large volume of foreign investment would have been necessary in 1939 to affect non-agricultural employment appreciably.[26]

It was also revealed that a large portion---perhaps 50 per cent or more---of the total real capital resources of a country is composed of items that do not enter into international trade, such as buildings, etc. As Professor N. Buchanan ably puts it,

> So much real capital formation is in structures and modifications of the landscape that as a rule a large portion of the total cost of bringing it into existence must necessarily be spent locally. It cannot be imported. It cannot be done abroad. If one is to excavate for a building foundation for a textile mill it is quite impossible to have the 'hole' dug abroad and imported. Local labor must be used. Hence insofar as real capital formation consists of these non-movable items, industrialization does not give rise to direct imports. And by the same token it does not occasion direct exports from the lending countries 'financing' the industrialization.
>
> Some direct export of capital goods of course will usually accompany foreign lending for productive purposes. But characteristically their money value will be much less than the total cost of the project. That is, if a project having a total cost of 100 is financed by foreign borrowing, the direct export of capital goods from the lending country will be substantially less than 100. For the total cost of 100, only some fraction, say, perhaps 40 per cent, will consist of individual items that can be imported. The amount that can be imported will set the upper limit to the direct capital goods exports from the lending country which will be induced by the loan. Typically it will be something less for two reasons. First, some, perhaps many, machines, materials, supplies, etc., will be obtainable more cheaply in countries other than the lending country,

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26 N. Buchanan & F. Lutz, Rebuilding the World Economy, (New York, 1947), 227. Italics in the original.

Second, not all capital goods that can be imported must be imported. Some will be obtainable in the domestic market at lower cost.[27]

As we have seen earlier, foreign lending will raise exports relative to imports, but the goods exported may consist of practically anything. So foreign lending is not an effective instrument against stagnation in the capital goods industries because a large portion of them do not enter into international trade. How about employment? The difficulty of exporting capital goods is counter-balanced by the possibility of exporting durable goods, like refrigerators, cars, washing machines and radios, which have a strong multiplier effect on employment. If employment is the main concern, then outright gifts would be the best policy to follow, for loans have to be repaid ultimately, plus interest, and, unless foreign investment exceeds the yield and amortization flow from past investments, then the effect on domestic employment will be a negative one. To support $1 billion of exports, the United States has to lend an increasing amount every year because the borrowing country would need to use an increasing amount from each annual loan to pay interest and principal on earlier loans.

Table 6 shows the amount that has to be lent every year so that an export surplus of $1 billion is maintained. Five different interest rates are assumed and a 20-year amortization period for all loans.

How much would the investment abroad of $1 billion stimulate employment in the United States? The national income of the United States for 1954 was $299.7 billion. At that level of national income, gross

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27 Norman Buchanan, International Investment and Domestic Welfare, (New York, 1945), 131-132. Italics in the original.

private capital formation amounted to $47,248 million and the unemployed during that year amounted to 3,230 thousands.[28] It is evident that the $1 billion of foreign investment constitutes a small fraction of the gross private capital formation for that year and its effect on employment would be of minor importance. Since it began operations ten years ago, the World Bank's disbursements amounted to slightly less than $2 billion.

TABLE 6

ANNUAL AMOUNT OF 20-YEAR LOANS REQUIRED, AT VARIOUS INTEREST RATES TO MAINTAIN ANNUAL EXPORT SURPLUS OF $1 BILLION[29]

(Billions of Dollars)

Year	2%	3%	4%	5%	6%
5th Year	1.35	1.38	1.43	1.47	1.52
10th "	1.81	1.92	2.03	2.16	2.31
15th "	2.44	2.65	2.90	3.18	3.50
20th "	3.28	3.67	4.14	4.68	5.32
25th "	4.41	5.08	5.90	6.88	8.09

The Marxists believe that the falling tendency of the rate of profit is inherent in the nature of capital and the system of capitalism itself. To the communists, the World Bank is a tool in the hands of the capitalists who are using it to fight the tendency of the rate of profit to fall by opening new markets and creating new demand for their products. To my mind, that is another reason why the Russians have not joined the World Bank: to them, the World Bank is only postponing

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29 R. Hinshaw, "Foreign Investment & American Employment", American Economic Review, Supplement, No. 2, (May, 1940), 667.

28 The Economic Almanac 1956, 444, 446, 365.

the final disaster, for the fight will not be successful and the inherent contradictions in capitalism itself will result in crisis.

Those who believe that foreign investment could be a powerful palliative to cyclical unemployment and to "secular stagnation" are thinking in terms of larger outflows of capital than took place in the past or is taking place now. Domestic needs, however, will ultimately set a limit beyond which the rate of foreign investment cannot be increased. In the long-run, when interest and amortization payments begin to backflow, the effect on employment in the lending country will be negative.

International investment must be stated in terms of its contribution to the real incomes of nations. "Under rational conditions, the increase in real income issuing from international investment accrues not only to the country in which the investment is made but the country which makes the investment. But the only way in which real income can be transferred is by a process which reduces the foreign contribution to employment. Since this is so, and since in principle the employment problem can always be solved on the domestic level, it would seem the better part of wisdom not to seek a solution via the foreign balance."[30]

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30 Hinshaw, "Foreign Investment and American Employment", 671.

CHAPTER FIVE

THE WORLD BANK'S LENDING OPERATIONS AND TECHNICAL ASSISTANCE

In 1955-1956, the World Bank lent a sum equivalent to $396 million to 26 countries; this was about $14 million less than the $410 million, the highest since the World Bank began operations, made during 1954-1955. As is shown in Table 7, the gross lending of the World Bank since it began operations amounted to $2,720 million ($2,667 million net of cancellations and refunding) made up of 150 loans in 42 countries and territories. The amount disbursed has totalled $1,964 million.

Before the Marshall Plan began its operations, the World Bank lent about $497 million to Europe for reconstruction purposes; after that its loans were directed towards the economic development of its member countries.

During the first years of its operations, the World Bank found that one of the major physical obstacles to economic development in the underdeveloped countries had been the lack of basic services, particularly of electric power and transportation. The lack of these services

> ...put severe limits on productivity, on income, and on the willingness to invest. Deficiencies of electric power supply were conspicuously handicapping industrial growth. The lack of dependable and economical transportation had restricted the size of the markets for both industrial and agricultural production, and had kept regions with promising natural resources beyond the reach of development. [1]

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1 International Bank for Reconstruction and Development, Tenth Annual Report, 1954-1955, (Washington, 1955), 30.

TABLE 7

LOANS CLASSIFIED BY PURPOSE AND AREA
June 30, 1956

(Expressed in millions of United States dollars, net of cancellations and refunding)

Purpose	Total	Areas: Africa	Asia	Austral-Asia	Europe	Western Hemisphere
Grand Total	2,667	347	439	259	969	653
Development Loans, Total	2,170	347	439	259	472	653
Electric Power	789	178	136	33	130	312
Transport	656	125	128	97	59	247
Railroads	348	117	80	21	3	127
Shipping	12	---	--	--	12	---
Ports and Inland Waterways	78	1	34	--	37	6
Roads	163	7	--	42	--	114
Airlines and Airports	41	--	--	34	7	---
Pipelines (natural gas)	14	--	14	--	--	---
Communications	26	2	--	--	--	24
Agriculture and Forestry	228	--	41	89	51	47
Farm Mechanization	99	--	--	75	2	22
Irrigation and Flood Control	88	--	31	6	31	20
Land Clearance and Improvement	20	--	10	6	2	2
Crop Processing and Storage	6	--	--	--	4	2
Livestock	1	--	--	--	--	1
Forestry	14	--	--	2	12	--
Industry	331	2	134	40	132	23
Iron and Steel	145	--	114	10	21	--
Pulp and Paper	63	--	4	--	39	20
Fertilizer and other Chemicals	21	--	---	1	20	--
Other Industries	48	--	6	18	22	2
Mining	23	--	---	11	12	--
Development Banks	31	2	10	--	18	1
General Development	140	40	--	--	100	--
Reconstruction Loans, Total	497	--	--	--	497	--

Source: International Bank for Reconstruction and Development, Eleventh Annual Report 1955-1956, 58

The development of electric power and transportation had to be financed by the World Bank because such projects do not yield direct return to private investors but will yield great benefits to the country as a whole in industrialization and agricultural development.

To counteract that deficiency, 36% ($789 million) of the World Bank's development lending has been made to develop electric power; the result was that 6½ million kilowatts were added to the generating capacity of its member countries. About 31% ($656 million) of its development loans has been made for the development of transport and communication, such as railroads, ports and inland waterways, roads, airlines and airports, telephone, telegraph, and radio communication. Put together, loans for electric power and transportation make up 67% of the World Bank's development lending.

Agriculture is of vital importance to the underdeveloped countries. In 1952, 70% of the population of Asia was dependent on agriculture for its livelihood, and, in Africa, the proportion dependent on agriculture was 73%. Of the World Bank's development loans, some 10% ($228 million) went to the development of agriculture and forestry. The loans were made for farm machinery, irrigation, flood control, land clearance and improvement, and for the expansion of agricultural credit. It must also be realized that the loans made for electric power and transport had great effect on the expansion of agriculture. Africa has received no loans for direct agricultural development, while Asia received only $41 million or about 18% of the loans made by the World Bank for agricultural development.

Loans for direct industrial development have amounted to about 11% ($331 million) of the World Bank's development loans. Some 80% of these loans were made to European and Asian countries: $114 million went to the development of iron and steel production in Asia, and $20 million for other industrial projects; the $132 million loan to Europe for industrial development was allocated to pulp and paper production ($39 m.), iron and steel ($21 m.), fertilizer and other chemicals ($20 m.), development banks ($18 m.), mining ($12 m.), and other industries ($22 m.).

The World Bank's loans for general development purposes amounted to $140 million.

In the field of industrialization, the World Bank has been confronted by difficulties which put a limit to the amount of help it could give to private industrial projects. In underdeveloped countries, industrialization often takes place through a variety of small enterprizes which makes it difficult for the World Bank to examine their economic merits and feasibility. Another impediment to the World Bank's assistance to private industry has been the requirement of a government guarantee of the loan. Fear of government interference in their business, coupled with the government's fear of appearing to favor one private industry over another, has discouraged the flow of loans to private industrial projects.

So far, borrowers have met all payments due. In case of a default, the World Bank would spread the risk premium over its members, which makes it easier for each country to pay its share, rather than one impoverished borrower to meet the whole debt. The policy of the

World Bank concerning the payment of interest and the repayment of principal is sufficiently elastic to prevent large-scale default on its loans. When a borrower is faced with "an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner"[2] repayment in domestic currency may be made for periods not to exceed three years. The member country will guarantee, of course, the maintenance of the currency's foreign exchange value, and will provide satisfactory provisions for the purchase of its domestic currency with the currency of the loan.[3] Moreover, "the Bank may modify the terms of amortization or extend the life of the loan or both."[4]

Aside from being a source of loans, the World Bank has been a source of advice on many different aspects of economic development.

In underdeveloped countries, there was need for foreign capital, but soon it was discovered that there was a greater need for creating the conditions and supplying the skills necessary for using capital more effectively than it had been used in the past. The early experiences of the World Bank showed that the economically underdeveloped member countries when asking for a loan had no specific projects for development, and those who had specific projects did not work out the economic details necessary. To ensure the proper use of its funds, the World Bank had to conduct its own research concerning the projects presented.

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2 UN, Monetary and Financial Conferences, 1058.

3 Ibid., 1059.

4 Ibid., 1059.

Before it signed a loan, it had to make sure that the borrowing country would benefit economically from the project, that the project was well designed and engineered, that funds were available to cover local expenditures, and that the borrower country had adequate managers and administrators to carry on the building of the project and to operate it once it has been constructed.

To carry on its research the World Bank had to study the economy of the borrowing country as a whole. Gradually, member countries began to request the World Bank to undertake studies of their respective economies for long-term, over-all economic planning for development. To date, 14 such general surveys of member countries have been completed. To make sure that its report is not forgotten, the World Bank demands that half of the cost of the mission be paid by the member country asking for the survey. These surveys differ greatly in literary style, exposition and organization, amount and reliability of the data included, and rigor of economic and sociological analysis. However, the emphasis has been put on three points. The first is to estimate roughly the amount of investment that a country can undertake with the resources at its disposal. The second is to recommend priorities of public investment among the different sectors of the economy. The third is to suggest economic and financial policies and administrative measures necessary to support the development programs.[5]

From the very start, the World Bank realized that the greatest obstacles to economic development are not financial but a lack of planning experience, weak administration and management. Trained people

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5 IBRD, Tenth Annual Report, 1954-1955, [redacted], 35.

in planning administration and management were in great need. To supply the need, the World Bank has for the last eight years trained officials of member countries in subjects such as balance of payments, national-income accounting, planning, etc. In addition, an Economic Development Institute has been set up to train senior government officials in the problems of economic development. The Institute devotes more time to discussion and the pooling of experience than to text-book instruction. Its syllabus concentrates on actual situations and on policies that are of special importance for economic development.

PART II

THE WORLD BANK'S REPORT ON THE ECONOMIC DEVELOPMENT OF IRAQ

To defy Power,
which seems
omnipotent.

Percy Shelley.

CHAPTER SIX

THE CONCEPT OF ECONOMIC DEVELOPMENT

The phrase "underdeveloped country" has been used in various ways to mean many things. It has been used interchangeably with other words such as "backward," "poor," "inefficient," "agrarian," "developing," etc. This led some economists to distrust all definitions of economic development. "Many attempts have been made to define an 'under-developed' country, region or community. All the definitions known to me leave much to be desired."[1] This, of course, is true. There is no one definition of economic development or underdevelopment which is inclusive and general enough to apply to all the countries. In this thesis, however, we shall attempt a definition which will apply to Iraq--the country of special reference in our study.

In one sense, the economy of every country is underdeveloped, including that of the United States and Canada, meaning that "more can be done to build up its productive power and to improve the economic well-being of its people."[2] The term, however, has recently been used to mean "countries in which per capita real income is low compared with the per capita real incomes of the United States of America, Canada, Australia and Western Europe."[3] In this sense, the term is being used to mean "poor."

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1 S. Herbert Frankel, The Economic Impact on Under-developed Societies, (Cambridge, Mass., 1953), 65.

2 Eugene Staley, The Future of Underdeveloped Countries, (New York, 1954), 13.

3 United Nations, Measures for the Economic Development of Underdeveloped Countries, (New York, 1951), 3. Hereafter cited as UN, Measures for Economic Development.

Per capita income is the net value in money terms of the goods and services produced in a country, or accruing to the residents of that country, during a period of time, divided by the population. To get per capita income in real terms, the national income of a country is corrected for price changes during the different periods of computation. Those countries that have per capita income of $150 and below are considered underdeveloped, those that have per capita income of $150 to $450 are intermediate, and those that have per capita income of $450 or more are developed.[4]

The shortcoming of labelling all "poor" countries underdeveloped is that a country may be poor because of its poor resources, although it may have developed those resources to the fullest extent possible. Students of economic development seem to disregard this on the ground that such countries do not exist.[5] There are areas, however, which cannot be developed profitably, with existing technology, such as the Arctic and Antarctic, the Sahara Desert, and even the tropical jungles. "There is no sense in wasting scarce resources in 'developing' areas which cannot provide a decent living for human beings, but a good deal of effort and wealth, and even a greater deal of talk, are wasted on such areas."[6]

For our purpose, an underdeveloped country is that country which, not only has a low per capita income, but has also a good

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4 Staley, The Future of Underdeveloped Countries, 17n.

5 UN, Measures for Economic Development, 3. This report was prepared by a group of five economists.

6 Jacob Viner, International Trade and Economic Development, (Illinois, 1952), 121.

potential prospect of increasing the per capita income of its population. The increase in the per capita income (or output) should come through the use of more capital or more labor or more available natural resources, or all of these,[7] rather than through a decline in population either as a result of death or emigration. If we put our primary emphasis on per capita income, then the rate of increase of productivity must be more than the rate of increase of population; we are, in other words, concerned with per capita output and not total output.

The above definition has its shortcomings. Per capita income is not a good measure of economic well-being, although it is the best measure we have. Reliable national income data is not available for all countries. The United Nations' Statistical Office, in computing the national and per capita incomes of some seventy countries, had in many cases "to accept doubtful figures, to extrapolate figures calculated for past years, or to prepare its own estimates based on the fragmentary information available."[8] Per capita income, for another thing, does not tell us much about the distribution or the consumption of income: a few citizens may control the bulk of a country's wealth and, as output increases, consumption might decrease, either due to an increase in saving or due to the use of the output for government purposes.[9] Here, the country may need better laws of distribution rather than better methods of production. There is also the arbitrariness of measuring output and income. Because of the extreme difficulty

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7 Viner, International Trade and Economic Development, 125.

8 United Nations, National and Per Capita Incomes of Seventy Countries 1949, (New York, 1950), 5.

9 W. Arthur Lewis, The Theory of Economic Growth, (London, 1955), 9.

of computing the monetary value of the economic activities carried on within the household, these activities are not taken into account. Such activities form a great part of the economic transactions of the underdeveloped countries. Lastly, the exchange rates used for conversion are not a correct approximation of the purchasing power of the different currencies.

Another shortcoming of the above definition of an underdeveloped country is that it stresses the physical factors of economic growth. Increase in per capita income, however, is not only determined by the natural resources available, but also, and perhaps to a greater extent, by the people's attitudes

> ...to work, to wealth, to thrift, to having children, to invention, to adventure, and so on, and all these attitudes flow from deep springs in the human mind. There have been attempts to explain why these attitudes vary from one community to another. One can look to differences in religion, but this is merely to restate the problem, since it raises the question why the particular religion holds these particular tenets, and why it has been accepted in this particular place and not elsewhere. Or one can look to differences in natural environment, in climate, in race, or, failing all else, in the accidents of history. The experienced sociologist knows that these questions are unanswerable, certainly in our present state of knowledge, and probably for all time.[10]

Who is to be the carrier of economic development? In the Schumpeterian system, economic development depends on innovation. Schumpeter identified the innovating entrepreneur as the carrier of economic development. The Schumpeterian concept of economic development covers the following five cases:

> (1) The introduction of a new good--that is one with which consumers are not yet familiar--or of a new quality of a good.
>
> (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon

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10 Lewis, The Theory of Economic Growth, 14.

a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.

(3) The opening of new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

(4) The conquest of a new source of supply of raw materials or half-manufactured foods, again irrespective of whether this source already exists or whether it has first to be created.

(5) The carrying out of the new organization of any industry, like the creation of monopoly position (for example through trustification) or the breaking up of a monopoly position.[11]

Some economists, following the Schumeterian system, have emphasized the lack of entrepreneurial initiative as the most vital obstacle to the economic development of the underdeveloped countries. It is argued that individuals and institutions tend to concentrate their economic activities in "unproductive" enterprises such as commerce, stock market speculation, and real estate, instead of indulging in economic activities which would enhance the economic development of the country, e.g., manufacturing.[12]

It is true, no doubt, that much of the economic activity in underdeveloped countries tends to concentrate on "unproductive" enterprises, but this truth explains nothing: it only states a fact, as they see it. Other economists, however, deny the lack of entrepreneurial initiative in the underdeveloped countries:

> A person imbued with the lagging-entrepreneurship school of thought might be surprised to learn that India's major industries owe their origin chiefly to the native initiative, not to the British overlords. Textile, steel, cement, sugar---in all these industries the first successful plants of significant size were established by Indians, with British capital usually entering in relatively short order.[13]

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11 Joseph Schumpeter, The Theory of Economic Development, (Cambridge, Mass., 1951), 66.

12 Cf., A. J. Meyer, "Entrepreneurship: the Missing Link in the Arab States", Middle East Economic Papers, (Beirut, 1954).

13 Henry Aubrey, "Industrial Investment Decisions", The Journal of Economic History, XV, (December, 1955), 344-345.

James Baster, an economist who has lived in the Middle East for a while, has this to say,

> The idea that Western experts can teach the merchants of the Levant how to make profits through private enterprise is a subject for humor, not for international grants-in-aid. What the merchants need is not instruction but a more stable frame of reference for their operations.[14]

There is, then, no lack of entrepreneurial initiative in the underdeveloped countries. The activities of the entrepreneurs, however, are directed toward "unproductive" economic activities. A more useful approach to the entrepreneurial question would be to find out the causes which limit the entrepreneur's activities. Lack of initiative and ingenuity do not represent good arguments, for commerce, stock market speculation, and real estate dealings all entail risk and demand initiative and ingenuity as much as manufacturing. The real causes are to be found in the absence of essential information about the market, the small size of the market itself, the dearth of skilled labor, and the high cost of research. These obstacles have also made the role of the entrepreneur in underdeveloped countries, even in "productive" enterprise, different from those in more developed countries. As compared with the more developed countries, the "less developed countries are not in need of 'innovators' as much as of 'imitators', people who apply the techniques already developed elsewhere."[15] Moreover, in underdeveloped countries "the imitation and adaptation of foreign techniques is, in a way, also a pioneering step, as daring as innovation under more advanced conditions."[16] The problem "is largely one of

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14 James Baster, "Discussion", Ibid., 355.

15 Aubrey, "Industrial Investment Decisions",338.

16 Ibid., 338n.

utilizing the experience of other countries." [17]

Before the entrepreneurs become a vital force in the development of the underdeveloped countries, the government of these countries should eliminate, or at least decrease considerably, the effects of the more discouraging obstacles to economic development.

This important role of the government is a fact to keep in mind when discussing the World Bank's economic missions. The procedure is as follows; the governments of member countries request the World Bank to send a mission to make an economic survey of their countries' economic potentialities and recommend a program of action for economic development to be carried out by the government or government agencies. Always, the World Bank missions work under specified terms of reference. In the case of Iraq the terms of reference were the following:

> The Mission will be expected to undertake a general review of Iraq's economic potentialities and to submit recommendations designed to assist the Government of Iraq to formulate a long-term program for the further development of the country's productive resources. Specifically, the report of the Mission is to include recommendations concerning:
> (1) investment priorities as among different sectors of the Iraqi economy and as among types of undertaking within each important sector;
> (2) the approximate rate of investment which can appropriately be undertaken without inflationary or other disruptive effects;
> (3) measures apart from capital investment which appear necessary or desirable for improving and increasing production;
> (4) economic and fiscal policies which may be important to accelerate the pace of Iraq's development; and
> (5) governmental organization and practices having an important effect on development.[18]

The Missions recommendations are of necessity limited to those which the governments of the surveyed countries can carry out without

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17 Willard L. Thorp, "Some Basic Policy in Economic Development", American Economic Review, Papers and Proceedings, XLI, No.2, (May, 1951), 412.

18 International Bank for Reconstruction and Development, The Economic Development of Iraq, (Baltimore, 1952), 35.

jeopardizing their political position.

> There is not to be found in these reports a complete disclosure of all the significant causes of economic underdevelopment, nor an adequate account of all systems of socio-economic therapy by which these causes might be removed...For the mission has been organized by the Bank at the request of the country visited, and its recommendations are intended for study by, and discussion between, the Bank and the country's government. Moreover, it being the purpose of a mission to induce action on the part of the government of a visited country, its recommendations must be limited to those which it feels the government can, as a practical matter, carry out. Accordingly, missions must necessarily refrain from suggesting institutional or other changes which are completely beyond the scope of practical politics. Furthermore, since the purpose of a mission is not the advancement of economic learning but the bringing about of government action, analysis of the process of economic development is limited, in the economic section of reports, to what is necessary to explain the recommendations made.[19]

Since 1949, the World Bank has sent general survey missions to several member countries that differ widely in many respects: Colombia, Cuba, Guatemala, Iraq, Syria, Jordan, Surinam, Jamaica, Mexico, etc. The missions recommendations are expected to be different for the countries surveyed, because these countries differ in natural resources, population pressure, literacy, health, climate, religion, and so on. In this thesis the World Bank mission's report on Iraq was chosen for special reference. It was felt to be necessary that one report only be analysed, for the diversity of the countries tackled by the World Bank missions makes detailed survey impossible and broad generalization misleading.

Iraq fits our definition of an underdeveloped country well. The per capita income of Iraq is probably at most $84.[20] Moreover, about

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19 Joseph Spengler, "IBRD Mission Economic Growth Theory", American Economic Review, Paper and Proceedings, XLIV, No.2, (May, 1954), 583-584.

20 IBRD, The Economic Development of Iraq, 1.

90 per cent of the population is illiterate, housing and sanitation are primitive, and many of the inhabitants are subject to malaria, hookworm and bilharzia.[21] There is little doubt, however, that "the country can ultimately maintain a much larger population on a considerably higher standard of living."[22]

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21 IBRD, The Economic Development of Iraq, 1.

22 Ibid., 1.

CHAPTER SEVEN

THE WORLD BANK'S REPORT ON IRAQ

A. Basic Facts About Iraq

Iraq is bounded on the north by Turkey, on the west by Syria and Jordan, on the east by Iran, and on the south by Saudi Arabia, Kuwait and the Persian Gulf. It has an area of 168,040 square miles and a population of about 5 million. The mission estimates that about half of Iraq's population is below the age of twenty. The birth rate is high and so is the infant mortality rate, but the population appears to be increasing at a rate of 1 to 1.5 per cent per year. The mission also believes that with improved health conditions, the rate of increase could rise to 2 per cent per year.[1] Assuming a 1.5 per cent net increase per year, Iraq's population will amount to approximately 7,000,000 by 1957, an increase of 39 per cent over 1953.[2]

Constitutionally, Iraq is a Moslem state. The Moselms are estimated at about 4-3/4 million, the Christians are estimated at about 150,000, the Jews at less than 10,000, and the other religions at about 50,000.[3]

The major sects of Islam in Iraq are the Sunni and the Shii sects. It appears that the Shiis are slightly more in number than the Sunni Arabs, but less than Sunni Arabs and Kurds combined.[4] The Kurds speak and Indo-European group of dialects (Kurdish) related to Persian

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1 International Bank for Reconstruction and Development, The Economic Development of Iraq, (Baltimore, 1952), 126-127.

2 United Nations Relief and Work Agency for Palestine Refugees, Quarterly Bulletin of Economic Development, No.11, (July, 1954), 1. Hereafter cited as Quarterly Bulletin, No. 11.

3 Royal Institute of International Affairs, The Middle East, (2nd ed., London, 1954), 257. Hereafter cited as RIIA, The Middle East.

4. Ibid., 257.

and are mostly Sunni Moslems.

Two rivers, the Tigris and the Euphrates, enter Iraq from the northeast and north respectively. These two rivers are of great importance to Iraq. Table 8 indicates the importance of irrigation to the future development of agriculture in Iraq.

TABLE 8

CULTIVABLE LAND, CROPPED LAND, AND LAND IN AGRICULTURE USE
(in millions of donums)[5]

Cultivable Area		48.1
Irrigation zone	32.1	
Rain-fed zone	16.0	
Area actually in crops		11.1
By area		
Irrigation zone	7.6	
Rain-fed zone	3.5	
By type of crop		
Winter	8.4	
Summer	1.9	
Orchards	0.8	
Area under cultivation		17.5

Source: IBRD, The Economic Development of Iraq, 137.

Of the estimated 48.1 million donums of cultivable land available in Iraq, 32.1 million donums (slightly more than two-thirds) has to depend on the two rivers for cultivation. In the Mesopotamian plain, in the south, rainfall averages only about 6 inches a year. In the Uplands in the north rainfall averages about 13 inches which is sufficient for growing winter crops without irrigation.[6]

5 One donum equals 0.25 hectares or 0.617761 acres.

6 RIIA, The Middle East, 254-255.

More than 60 per cent of the population derive their income directly from the land.[7] The remaining 40 per cent, or about 2 million people, form a labor force of about 450,000 which is distributed among the following occupations.

TABLE 9

NONAGRICULTURAL LABOR FORCE
(in thousands)

Commerce	110
Manufacturing and handicraft	75
Personal and Public Service	70
Government (including police)	55
Transport	45
	355
Other categories: errors & omissions	95
	450

Source: IBRD, The Economic Development of Iraq, 129.

Iraq's most important mineral is petroleum. The proven oil reserves of Iraq are 14,250 million barrels or 9 per cent of world total.[8] Oil became an important source of revenue to Iraq after 1952. In February of that year the Iraqi Parliament ratified an agreement between the government of Iraq and the I.P.C. (Iraq Petroleum Company) which raised the royalty rate to the Iraqi government from U.S. $0.35 per bbl. to U.S. $0.76 per bbl., retroactive to January 1, 1951. The total receipts from oil royalties was increased from Iraqi Dinar 3.2

7 As industry and commerce rely greatly on agriculture, the percentage of those who derive their income directly or indirectly rises to about 80 per cent. RIIA, The Middle East, 275.

8 The Economic Almanac, 1956, 33.

million ($8.96 m.)[9] in 1949-1950 to an estimated ID 76 m. ($212.8 m.) in 1955-1956. The production of crude oil also increased from about 7 million metric tons in 1950 to about 34 million in 1955. Aside from oil, other mineral resources in Iraq are scarce.

In 1950 a Development Board was established by the Iraqi Government. Its purpose was to draw up a general economic and financial plan for the development of the country's resources and for raising the standard of living of the people. The Iraqi parliament has allocated 70 per cent of Iraq's oil revenues for the execution of the Board's program. The program of the Development Board will be discussed in a later chapter. Its program was modified after the World Bank Mission visited Iraq in 1951 and submitted its report of the country's economic potentialities and its recommendations for the development of the country's resources.

B. The Report

The Mission's report on the economic development of Iraq is the result of three months extensive traveling in the country by a group of experts. It contains a broad survey of the basic factors and conditions in Iraq and the Missions recommendations and suggestions concerning different fields such as agriculture, industry, transport and communications, public health, community planning and facilities, and education. The Mision has drawn its recommendations with a view to finding "ways and means of spending rapidly increasing revenues in a manner which will contribute to the permanent development of the

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9 ID = US $2.80.

10 United Nations Relief and Works Agency for Palestine Refugees, Government Budgets of Middle East Countries,(Beirut, Lebanon, 1956), 47. Hereafter cited as,UNRWA, Government Budget.

[illegible]

country"[11] with a central objective of attaining " a much higher output in a manner that will benefit the people as a whole."[12]

In conducting its survey, the Mission encountered an obstacle which is only too common in almost all underdeveloped countries; that is, the lack of adequate and reliable statistical data.[13] The Mission, however, does not believe that the absence of reliable statistical data "significantly affect the validity of its recommendations."[14]

Although the conditions for further industrialization in Iraq are favorable,[15] the Mission stresses that any development program for Iraq must put primary emphasis on agriculture.[16] More than 60 per cent of the people in Iraq derive their income directly from agriculture and of the 48.1 million donums of cultivable land only 17.5 million (36%) are under cultivation; of this only 11.1 million are actually in crops. The rest is left fallow for lack of water.

The Obstacles:

The Mission believes that the low productivity of agriculture is due mostly to the sharecropping system. Land is largely owned by sheikhs and urban proprietors who entrust the cultivation of small parcels of their land to sharecroppers. These sharecroppers are poor and ignorant, so have no way of increasing their productivity. Besides, the land assigned to the sharecropper changes each year so that incentive for improvement is destroyed.[17] The depressed economic conditions of the

11 IBRD, The Economic Development of Iraq, 2.

12 Ibid., 97.

13 Ibid., x.

14 Ibid., x.

15 Ibid., 33.

16 Ibid., 97.

17 Ibid., 5-6.

contrary[1] [illegible] with a central objective of achieving "a much higher output in a manner that will benefit the people as a whole."[2]

In conducting the survey, the Mission encountered an obstacle which is only too common in almost all underdeveloped countries; that is, the lack of adequate and reliable statistical data.[3] The Mission, however, does not believe that the absence of reliable statistical [illegible] [illegible] [illegible] [illegible] [illegible] consideration.[4]

Although the conditions for further land distribution in Iraq are favorable,[5] the Mission observes that any [illegible] land program [illegible] must [illegible] primarily on agriculture.[15] More than [illegible] of the people in Iraq derive their living directly from agriculture and of the [illegible] million donums of cultivable land only 17.5 million (36%) are under cultivation; of this only 7.1 million are actually in crops. The rest is left fallow for lack of water.

The Mission believes that the low productivity of agriculture is due mostly to the share-cropping system. Land is largely owned by sheikhs and urban proprietors who [illegible] the cultivation of small parcels [illegible]

ignorant, so have no way of increasing their productivity. Further, the land assigned to the sharecropper changes each year so that incentive for improvement is destroyed.[17] The depressed economic condition of the

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[illegible] Ibid., The economic development of Iraq, p. [illegible]

[illegible] Ibid., p. [illegible]

[illegible] Ibid., p. [illegible]

[illegible] Ibid., p. [illegible]

[illegible] Ibid., p. [illegible]

[illegible] Ibid., p. [illegible]

sharecropper obviously retards progress for it "undermines the health and vigor of the rural population, limits the market for industrial products and may in the long run jeopardize the stability of the social order."[18]

To improve the status of the sharecropper, his bargaining position must be improved by providing alternative employment opportunities through development projects, the expansion of industry and the opening of atate lands to settlement.[19] The obstacles to the advancement of agriculture and the development of industry are many: widespread illiteracy, lack of private capital and initiative, limited internal market, high cost of transportation, ill health, lack of social insurance for the workers, bad public administration and lack of statistical data.

The Mission states that education "is a basic condition for agricultural, industrial and technological progress of the country as well as for the development of a fuller cultural life and the sound growth of democratic institututions."[20] Again,

> The Mission's approach in the educational field is founded on the conviction that education is one of the most important means of raising production levels and living standards and thereby assuring the economic health of the country... In underdeveloped countries, it would be most unwise to invest the bulk of the national resources in large industrial and agricultural projects while ignoring the need for developing social services essential to the mental and physical health of the people.[21]

Lack of elementary education is "One of the biggest handicaps in apprentice training,"[22] for, unable to read or write, the employees

> ...obviously can neither receive written instructions, maintain material and inventory control, select proper repair parts nor attend advanced in-plant training classes. Until this is corrected, Iraq must continue to rely on skilled foreign technicians and, in some of the larger and more complicated industries, on foreign management.[23]

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18 Ibid., 6.

19 Ibid., 7.

20 Ibid., 62.

21 Ibid., 423-424.

22 Ibid., 278.

23 Ibid., 278.

In Iraq, much capital is invested in property, where a higher rate of return is anticipated, or in commerce, where there is less risk. Although the Mission emphasises that in the immediate future industrial development "will have to depend very largely upon the initiative or financial assistance of the government," [24] it believes that complete government ownership of industry should be adopted only where absolutely necessary. In general it will prove necessary only where private capital is not available either because the contemplated investment is too large, or because the investment is in a new and untried field which does not for the moment appeal to private capital."[25]

Limited internal markets "restrict the number of industries which may be economically justified unless the product can be produced cheaply enough to find a foreign market." [25] The smallness of the market is due to low productivity, illiteracy, ill health, poor transportation system and lack of social insurance for the workers.

> Improved methods of farming, increased irrigation, better sanitation and more intensive education should help to raise purchasing power gradually. As government measures to these ends begin to take hold, industry can expect the demand for consumer goods to increase at a much faster rate.[27]

High costs of transportation, the Mission finds,

> ...handicap those industries requiring the importation of a high percentage of raw materials from Europe and America. The same obstacle will, of course, confront industries relying chiefly on European markets for their finished product. The best prospects for industrial growth are therefore found in those industries which, through advantageous production costs, are able to absorb the shipping costs or those in which shipping costs represent a very minor component of the market price of their product."[28]

The Recommendations:

The Mission's recommendations are directed towards the elimin-

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24 Ibid., 33.

25 Ibid., 38-39.

26 Ibid., 279.

27 Ibid., 279.

28 Ibid., 279.

ation of these obstacles to economic development, through government assistance and action.

In the field of agriculture, the Mission urges the settlement of state lands "as a means of establishing a class of independent peasant landowners capable of earning a decent livelihood." [29] The government of Iraq, under the terms of a law passed by Parliament in 1951, has already begun the distribution of state lands to selected settlers. The government, however, must insist that the settlers farm their land themselves so as to avert the creation of minor landlords.[30] For the settlement of new land, water is vital, but the present supply of water is not enough to irrigate effectively the area already in use. It is for that reason vital that the excess water which pours down the Tigris and Euphrates rivers during the spring flood season be stored. In addition to endorsing the Habbaniya and Wadi Tharthar projects and the Derbend-i-Khan and Dokan dams which the Development Board of Iraq had already initiated before the visit of the Mission to Iraq, the Mission recommends the construction of the Bekhme dam on the Greatest Zab River as soon as possible[31] (see map on following page). The Bekhme dam would supply water to the lower Tigris basin which would otherwise suffer from shortage of water due to the diversion of the Lesser Zab River water from the Tigris by the Dokan dam. The Bekhme dam would irrigate an area of two million donums and yield about ID 5,000,000 per year.[32]

The Mission argues that the expansion of land under cultivation would be largely ineffective if not undertaken in conjunction with a

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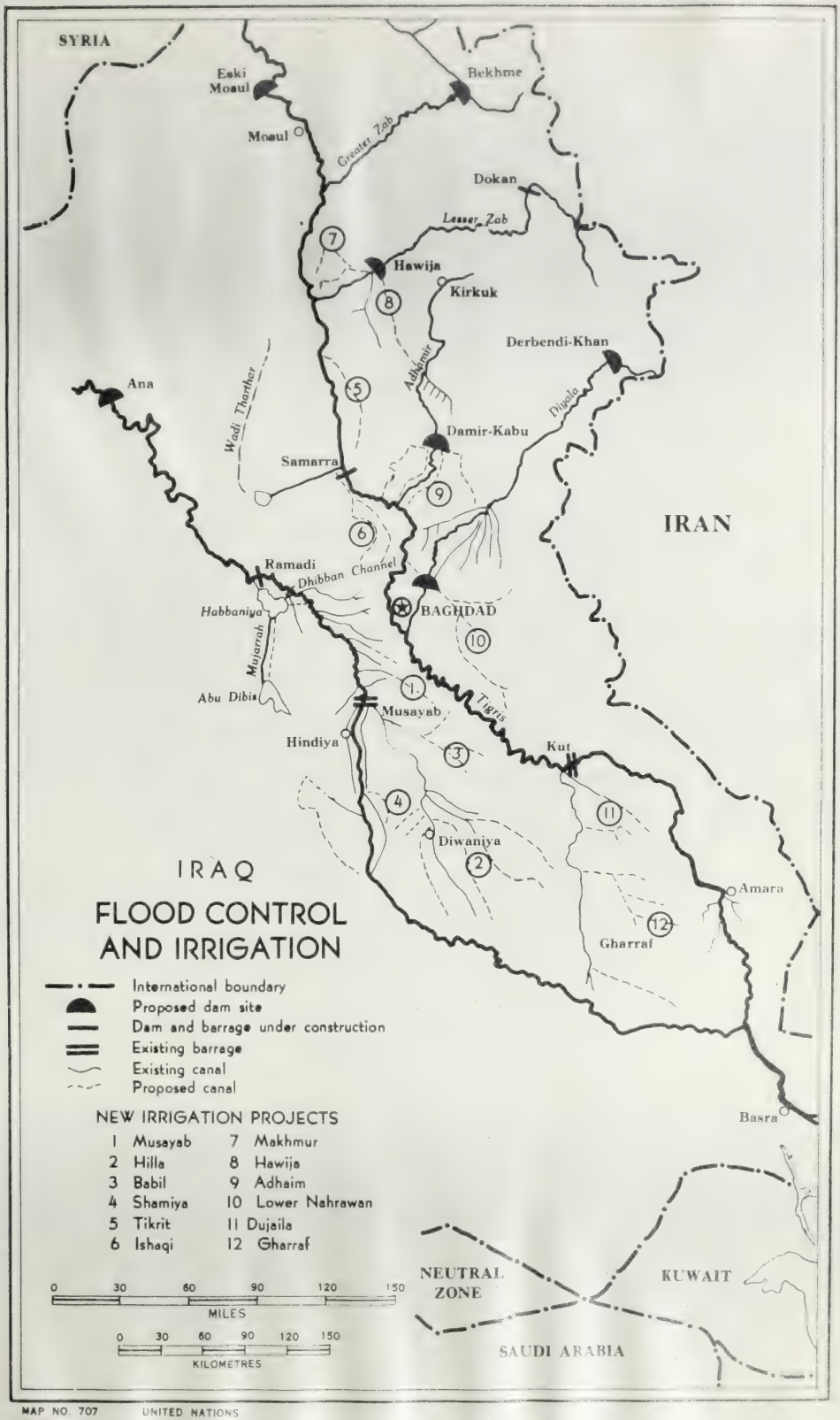
29 Ibid., 7-8.

30 Ibid., 14.

31 Ibid., 189, 191.

32 Ibid., 192.



MAP NO. 707 UNITED NATIONS
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vigorous campaign to increase the productivity of agriculture and the improvement of livestock.[33] This can be accomplished by the drainage of lands which have deteriorated owing to salting, the establishment of an effective agricultural extension service which would show the farmers the methods of improving production, the provision of better tools, seeds and draft animals, and the use of fertilizers. Other steps to be taken by the government in the field of agriculture to improve productivity include the promotion of cooperatives, the extension of agriculture credit facilities, the establishment of storage facilities for agricultural produce, the improvement of the quality of tobacco, and afforestation to check soil erosion, help prevent floods, and meet the shortage of timber for building and fuel.

Industry is little developed in Iraq and most of its production goes to the home market. Oil and gas would be a source of cheap fuel and as agriculture develops, cotton, sesame, linseed, and possibly sugar beets and sugar cane, soybeans and jute would provide raw material.[34] The existence of iron, copper, zinc, chrome ores, sulphur and salt deposits, the Mission feels, should "be confirmed by core drilling before steps are taken to undertake their commercial exploitation."[35]

The Mission's major recommendation in the field of industrial development is the "erection, near Kirkuk, of a plant which, using natural gas and gypsum as raw materials, would be capable of producing annually 500,000 tons of ammonium sulphate fertilizer, 100,000 of tons of carbon black and 300,000 tons of cement."[36] Moreover, new

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33 Ibid., 7.

34 Ibid., 277.

35 Ibid., 33.

36 Ibid., 37.

industrial enterprises such as a jute mill, a central machine shop, bonemeal fertilizer plants, an automobile tire factory, a small steel mill, a concrete batching plant and a plant for the manufacture of date boxes could be successfully established. There is also the possibility of expanding the capacity of already existing industries, some industries have the financial capacity for expansion, others lack it. To counteract the lack of funds for expansion, the Mission recommends the gradual increase of the Government-established Industrial Bank's capital by ID 5,000,000 which it would be "authorized to use for the making of loans to, and investment in, industry within the framework of an overall program approved by the Development Board."[37] To attract private capital into industry, the Industrial Bank should sell its shares to the public once the enterprise becomes profitable. The Mission warns against the dangers of excessive protection of industry by import prohibitions. This policy might lead, due to the limited market and the scarcity of entrepreneurs, to monopoly and high prices.[38]

The future agricultural and industrial development of Iraq would necessitate an increase in transport capacity. For the present needs of the country, the existing transport system is adequate. "For the future the principal problems will be to make provision for essential renewals of track and rolling stock and to standardize the gauges on the railways; to develop an adequate network of metalled main roads, supplemented by feeder roads; and to establish effective control over road transport. If these problems are solved, transport capacity should

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37 Ibid., 39.

38 Ibid., 40.

have no difficulty in meeting the growing requirements of agriculture and industry." [39]

In the field of transportation, the Mission urges the immediate standardization of the gauges on the railway lines. The Basra-Baghdad-Kirkuk line is meter gauge; the Bagdad to Mosul line, which links Iraq to Syria and Turkey, is standard gauge.

> The two gauges not only necessitate transshipment, but, above all, make the task of operation complicated and costly. They require a large amount of duplication in activities, of reserves, standbys and spares in all departments. The need for transshipment is likely to be a growing handicap to the railways as traffic requirements increase and the demand for more rapid transport grows. [40]

Other recommendations include the gradual conversion to diesel traction on the railways, dredging of a new channel across the Fao bar by the Port of Basra, improvement of the municipal bus service in Baghdad, and the extension of the telephone and the telegraph systems.

To increase the productivity of manpower, the people must be better educated and free from diseases which "sap the vitality and undermine the productivity of the people." [41] The Mission acknowledges the great improvements which have taken place in facilities for treatment of disease, but points to the relatively inadequate efforts made for its prevention. "It is therefore vitally important that more attention be devoted in the future to the preventive aspects of public health work." [42] The Mission's recommendations for the achievement of that end include such measures as increasing the number of village dispensaries to be also used as public health centers, the establishment of two schools for the training of town and country midwives, the organization

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39 Ibid., 43.

40 Ibid., 45.

41 Ibid., 49.

42 Ibid., 49-50.

of a sanitary corps, the teaching of personal hygiene and sanitation in schools, the elimination of stagnant and polluted water, provision, of safe water supplies and sewage disposal, slum clearance and better housing. On the curative side, the Mission believes that more emphasis should be put on the modernization, extension and replacement of existing hospitals rather than the construction of additional hospitals.[43] The Mission's recommendations concerning community planning concentrates on steps to be taken which will contribute to better public health.

In the field of education, the Mission "has come to the conclusion that the government should launch a three-part program involving (1) the improvement and extension of technical education, (2) the gradual introduction of compulsory primary school education, and (3) fundamental education for adults."[44] There is also need for the revision of the school curriculum. More attempts should be made to develop the students' creative instincts and make them cope effectively with problems of everyday living. The present curriculum is "far too bookish and academic and there is a great gulf between what is taught in school and the exigencies of practical life."[45]

The cost of carrying out the Mission's development program has been estimated at approximately ID 168.5 million. As we have seen earlier, the Iraqi government is sharing the profits derived from oil production with the IPC and 70 per cent of the government's oil revenues are allocated to the Development Board for financing its development program. This has made Iraq capable of capital formation without depending on foreign investment. It also has no financial pressure which would force

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43 Ibid., 52.

44 Ibid., 63.

45 Ibid., 66.

it to determine the relative priorities among various possible projects; financially, it can attack economic development on all fronts. The burden of administrative responsibility, the shortage of skilled labor and shortage of materials or equipment needed for more than one project, may present problems of their own. Therefore

> ...projects which are intended to conserve the existing resources of the country ought not to be delayed to the point where it becomes excessively costly to recover them or where the smooth working of the economy is endangered. This would apply particularly to the maintenance of existing irrigation systems and the drainage of existing irrigated areas as well as to the maintenance of the railways.[46]

For the careful planning and execution of the ambitious development program which is recommended by the Mission, an improvement in the efficiency of the public administration system is necessary. To that end, the Mission recommends decentralization of the planning and operation of the different aspects of the development program and the distribution of responsibility among the different ministries and departments. This will increase the "morale by giving the entire government service a sense of participation in constructive endeavor which now appears to be lacking."[47] The reasons for the low morale among civil servants, according to the Mission, are probably the low salaries and the lack of any sense of participation in constructive work. To overcome some of these shortcomings, the Mission recommends an increase in government salary scales and the improvement of the public administration system of Iraq. A small commission of Iraqi officials and two foreign experts on public administration and personnel would have to be appointed to make a survey of the system and recommend improvements.

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46 Ibid., 85.

47 Ibid., 77.

Because of the deficiency of technical talent in the government service, the Mission feels that full use of foreign technicians should be made in carrying out the development program. In addition, the Mission suggests that a small corps of competent engineers be attached to the Development Board and used to examine the technical soundness of the projects to be undertaken by the Development Board and other government departments.

The outlay involved in the Mission's development program is of considerable magnitude and the effect of such an expenditure on the foreign trade of Iraq, its national income, and employment would be great. Although it is difficult to forecast the size of the effect due to lack of relevant data, the Mission expects great changes

> ...which will effect the whole pattern of life. The national income will increase at a rate which, though not unparalleled, can certainly be considered exceptional. Large shifts in employment will occur as a consequence. The import trade will grow rapidly and with it, for example, customs revenues and the revenues of the Railways and the Port of Basra.[48]

It is inevitable that these huge expenditures will cause an inflation in the country. An increase in imports would reduce the dangers of great price increases and for that reason the Mission recommends the liberalization of imports, especially necessity goods, offset by an excise tax on luxuries. Other fiscal and monetary anti-inflationary measures, such as an avoidance of deficit government spending and a reduction in bank credit expansion, are also suggested.

Tax reforms in the direction of greater equity are strongly recommended by the Mission. The Istihlak tax on produce brought to market, is to be decreased and gradually abolished and a graduated income tax is to

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48 Ibid., 89.

be applied on cultivable agricultural land and urban property. The Mission, however, realizes that the latter tax "may not be politically feasible at present and would certainly pose difficult problems of assessment." [49]

To measure the overall economic and financial repercussions of the development program and take proper steps for remedying any dangerous trend which might result, the Mission recommends the appointment of a committee to look into these matters. The committee might consist of representatives of the Development Board, the National Bank and the Ministries of Finance and Economics. The work of the committee would be handicapped greatly by the inadequacy of the existing statistical data. "Without adequate statistics, it will be far more difficult to follow the progress of the program in fulfilling its ultimate objective, raising the standard of living of the people, and it will often be necessary to take decisions on the basis of guesswork." [50] The Mission notes a few general recommendations intended to build up the Principal Bureau of Statistics "into an efficient service organization for the whole government, which can offer an attractive career for its staff." [51] Finally, to make the statistics which are gathered and analyzed available to the public, a new quarterly Bulletin of Statistics published in Arabic and English is recommended.

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49 Ibid., 89.

50 Ibid., 115.

51 Ibid., 115.

CHAPTER EIGHT

THE DEVELOPMENT PROGRAM

The Mission's report on the Economic Development of Iraq, together with a five-year development program, was presented to the Iraqi Government in 1952. The immediate result was that the Iraqi Government replaced its own five year plan for 1951-1956 (expenditures estimated at ID 65.8 million) with a new six-year plan calling for the expenditure of ID 155 million in the period beginning April 1, 1951, to March 31, 1957. The estimated revenue was ID 169 million of which ID 165 million was to come from oil royalties.[1]

The execution of the six-year plan was entrusted to the Development Board which was composed of the Prime Minister as chairman, the Minister of Finance and six executive members including three experts, one in finance and economics, one in irrigation, and one in an unspecified field. Two of the executive members are foreign experts: one is an American irrigation expert and the other a British irrigation expert.[2] A Ministry of Development was created in July, 1953. The Minister is a member of the Development Board and its representative in the Council of Ministers. He is responsible for presenting new development plans as soon as the plan in operation comes to an end.[3]

To decentralize administration, in accordance with the recommendations of the Mission, "a distinction has been made between 'capital development projects' to be carried entirely by the Board

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1 United Nations, Economic Developments in the Middle East, 1945 to 1954, (New York, 1955), 110. Hereafter cited as, UN, Economic Developments, 1945 to 1954.

2 UNRWA, Government Budgets, 68.

3 UNRWA, Quarterly Bulletin, No. 11, 33.

and 'small development projects' which, though financed by the Board, are to be entrusted to the appropriate government departments for execution."[4]

The six-year plan was stopped short in April 1955 and it was replaced by a five-year plan (1955-1960) calling for an expenditure by the Development Board of ID 304 million. The revenue for the new plan is estimated at ID 253 million of which ID 215 million is to come from oil royalties. The remainder is to come from accumulated savings from previous years.[5] This termination was due to the fact that the "cost estimates of the old plan were no longer realistic,...the 1953 revision of the Development law changed the basis for financing projects of other agencies and necessitated different procedures, and the Development Board wanted more latitude in programming, as experience showed that obligations lagged behind plans and expenditures fell behind obligations."[6] From 1951 to 1954, the Development Board spent only ID 26 million of the ID 58 million planned to be spent during that period.[7]

TABLE 10

LOANS BY THE DEVELOPMENT BOARD[8]
(In 1000s of Iraqi dinars)

Omnibus service, Baghdad.....	1,000
Agricultural machinery and tools...	500
Oil refinery services.....	6,000
Baghdad Water Board.....	660
Directorate General of Iraqi Railways	2,500
Industrial Bank.....	500
Eight Municipalities.....	3,553
Total.....	14,713

4 UN, Economic Developments, 1945 to 1954, 111.

5 United Nations, Economic Developments in the Middle East, 1954-1955 (New York, 1956), 123. Hereafter cited as, UN, Economic Development, 1954-1955.

6 United States Department of Commerce, Foreign Commerce Weekly, 4 June 1955. Quoted by UN, Economic Developments, 1954-1955, 122.

7 UN, Economic Developments, 1945 to 1954, 111.

8 Ibid., 111.

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In addition, however, the Development Board has granted loans to municipalities and semi-governmental institutions, to the end of March, 1954, as is shown in Table 10. Due to the surplus of funds with the Development Board, the World Bank loan of $12.8 million made in 1951 for the Wadi Tharthar project was repaid by March, 1955; of the total loan only $6.3 million had been drawn.

Table 11 shows the projected expenditure under the first six-year plan and the second five-year plan.

TABLE 11

PROJECTED EXPENDITURES UNDER THE TWO PLANS[9]
(In thousands of Iraqi dinars)

	1951-1956	1955-1959
Administrative expenses	3,180	3,250
Irrigation, drainage, flood control	53,374	111,185
Roads and bridges	26,766	58,700
Railways	--	15,500
Airports	2,228	5,000
Public buildings	16,368	44,675
Housing	1,650	8,750
Industry, mines, electric power	31,050	43,571
Agriculture, forestry, wells	11,600	6,475
Miscellaneous projects	9,158	7,200
Total	155,374	304,306

Over 36 per cent of the projected expenditure under the second five year plan is allocated to irrigation, flood control, drainage and reservoirs. This sum is only a part of the overall irrigation and flood control program of Iraq. The total cost of the overall program, which includes 10 dams, irrigation and drainage works, roads and land leveling related to the irrigation works, was estimated by a member of the Development Board at ID 335 million.[10] So far two dams have

9 UN, Economic Developments, 1954-1955, 123.

10 UNRWA, Quarterly Bulletin, No. 11, 35.

been constructed. The Wadi Tharther flood-control project on the Tigris and the Habbaniya reservoir for flood-control and irrigation on the Euphrates were inaugurated in 1956."[11] The third dam under construction, the Dokan dam for irrigation, will be completed in 1958.[12] The overall flood- control and irrigation program is expected to increase the cropped land more than 90 per cent by 1975 compared to 1953, while population would only increase 39 per cent during that period.[13] (In Egypt, Syria, Jordan and Lebanon, cropped area may lag behind population.)[14]

One of the major obstacles to agricultural development of Iraq is attributed to the land tenure system.[15] To remedy the situation, the government went ahead with its settlement schemes of state-owned lands. By the end of 1954, some 10,200 farmers had been settled on 2,040,000 donums.[16]

> Farmers are organized in co-operatives for the purchase and sale of farm equipment and marketing of farm produce. The land is given free of rent and other charges for the first ten years; after that period farmers who have made good will be granted title to their land without charge, and for a further period of ten years they will not be permitted to alienate their land in any way or to mortgage it except to the State Agricultural Bank.[17]

Other land settlement projects are under way. The State Agricultural Bank aims at assisting farmers by granting loans and renting or selling, on deferred payment, agricultural machinery, tools, seeds and fertilizers. It acts as agent for the grading and cleaning of crops, assists in the formation of co-operative societies and invests in agricultural enterprises. Its nominal capital was raised from ID 1 million,

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11 UN, Economic Developments, 1954-1955, 125.

12 UNRWA, Quarterly Bulletin, No. 11, 35.

13 Ibid., 7.

14 Ibid., 7.

15 Doreen Warriner, Land and Poverty in the Middle East, (London & New York, 1948), 103.

16 UN, Economic Developments, 1945 to 1954, 95.

17 United Nations, Progress in Land Reform, (New York, 1954), 105.

been constructed. The most important flood-control project on the Tigris and the [illegible] reservoir for flood-control and irrigation on the Euphrates were inaugurated in 1956.[11] The [illegible] Dam under construction, [illegible] will be completed in 1960.[12] The overall flood-control and irrigation program is expected to increase [illegible][15] population would only increase 50 per cent during that period.[13] (In Egypt, Syria, Jordan and Lebanon, cropped area [illegible] lagging behind population.)

One of the major obstacles to agricultural development of Iraq is attributed to the land tenure system.[14] To remedy this situation, the government dealt with the problem by distributing state-owned lands. By the end of 1958, some [illegible] farmers had been settled on 2,040,000 donums.[16]

Farmers are permitted [illegible] for the purchase and sale of farm equipment and marketing of their produce. The land is given free of rent [illegible] first [illegible] years; after that period farmers who have made good will be granted title to the land [illegible], and after a further period of ten years they will not be permitted to alienate the land in any way or to mortgage it.

Other land settlement projects are under way. The State [illegible]

or selling, on deferred payment, agricultural machinery, tools, seeds and fertilizers. It acts as agent for the grading and cleaning of crops, assists in the formation of co-operative societies and invests in agriculture. [illegible] The nominal capital was raised from ID 1 million,

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[11] [illegible]

[12] [illegible] Bulletin, No. 11, 55.

[13] [illegible]

[14] [illegible]

[15] [illegible]

[16] [illegible] 1958, [illegible]

and its paid-up capital in 1953 was raised from ID 1 million to ID 1.6 million. "At the end of 1954, the Government issued a new ordinance advancing the Bank ID 500,000 to enable it to purchase machines and irrigation pumps and their acessories, to aid small farmers and also to increase its loans." [18] The Agricultural Bank should in the future be of great help to the farmers who are to receive land under the land settlement schemes; in the past borrowers have been chiefly large landowners and not the small farmers who needed the credit most.[19]

Another important allocation in the new five-year plan is for industry, mines and electric power, which comprises more than 14 per cent of the total projected expenditure. The aim is to increase the output of consumer goods and the production of certain basic products from oil. A cotton spinning and weaving factory near Mosul is expected to produce 20 million square metres of cloth per year.[20] The projects for the establishment of new cement plants and increasing the capacity of the already existing ones would raise annual production of cement in Iraq to over a million tons.[21] The biggest industrial project under construction is an oil refinery near Baghdad which will cost approximately ID 10.5 million and have a capacity of one million tons a year.[22] The refinery will produce solely for local consumption, which has increased from about 190,000 tons in 1938 to nearly 800,000 in 1953.[23] Other

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18 UN, Economic Developments, 1945 to 1954, 104.

19 Carl Iversen, Monetary Policy in Iraq, (National Bank of Iraq, 1954), 32. Quoted by UNRWA, Government Budgets, 87.

20 UN, Economic Developments, 1945 to 1954, 116.

21 Ibid., 116-117.

22 Ibid., 117.

23 Ibid., 98.

industrial projects include the exploitation of the natural gas from the Kiruk oilfields which previously was wasted; the construction of a lubricating oil plant; the building of an asphalt refinery; the exploitation of the large sulphur resources discovered in North Iraq; and the establishment of smaller industries such as a sugar factory, a paper factory, and a rayon factory.

The Development Board undertakes the establishment of industries either directly, or through a government department, or through the Industrial Bank of Iraq. The million ton oil refinery just mentioned is the responsibility of the Government Department of Oil Refineries. The Industrial Bank can loan up to ID 20,000 to individuals and it can participate in the holding of shares of companies up to ID 250,000 per company. The period of the loan ranges between a maximum of ten years to companies with a capital of ID 100,000 or more and a maximum of five years to companies with less capital. The Industrial Bank

> ...holds a large proportion of the shares of eleven major Iraqi concerns, nine of which are industrial, one partly so and the other non-industrial. The total nominal value of the Industrial Bank's share in these enterprises amounted at the end of March 1953 to ID 995,000, out of a total capital of ID 4.77 million; by March 1954 its share had risen to ID 1.12 million. The Bank has been gradually disposing of its share in enterprises to the public when these enterprises are firmly established, in order to stimulate more interest and to divert its capital to other new enterprises.[24]

Following the recommendations of the World Bank's Mission, the Iraqi Government is studying, with the assistance of foreign specialists, the Iraqi tariff and income tax systems with the intention of amending them. The Minister of Finance, in presenting the 1955-1956 budget, stated that,

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24 UN, Economic Developments, 1945-1954, 105.

> The policy of this government is to reduce custom duties on exports as well as on imports. We also intend to reform our income tax system for two purposes: a-to increase the revenue of the state and, b-to have the individual share in the expenditures of the government.[25]

By 1954, the Istihlak tax was cancelled for meat, livestock produce, vegetable, fruit, fish, cotton, wool, etc., if domestically consumed and was raised to 20 per cent on these products if exported.[26] As a result of these rate changes, the revenue from this tax on animals and fish was reduced from ID 1,023,218 in 1950-1951 to an estimated ID 300,000 in 1955-1956.[27] Iraq still, however, has no tax on income derived from agriculture, nor does it have an inheritance tax.[28]

Concerning tariff reforms, protect local industries, rates have been raised on luxury goods, such as automobiles, furs, silk, gold and silver plated ware, etc.; and also on textiles, soap, vegetable oil, aluminum utensils, leather products.[29] Import duties have been lowered on consumer goods, such as sugar, tea, and cloth. Some consumer goods have been temporarily exempted from duty, depending upon local prices and supply.[30]

In its efforts to improve the collection and analysis of statistical data, the government of Iraq has hired Dr. K. G. Fenelon, a British expert in statistics, to devise

> ...a series of recurrent censuses on agriculture, livestock, industry, housing, public utilities, government enterprises and the distributive trades. These censuses will be repeated every five years and, during the intercensal periods, sampling investigations will be made once the 'statistical benchmarks' have been established.[31]

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25 Published in Al-Shaeb, Baghdad, January 6, 1955. Quoted by UNRWA, Government Budgets, 97.

26 UNRWA, Ibid., 54.

27 Ibid., 54.

28 Ibid., 58.

29 Ibid., 55.

30 Ibid., 55.

31 Clyde G. Hess Jr., "Half the Battle," al-Kulliyah, No.5, XXIX, (May 1954), 12.

In the field extension work, the government of Iraq procured the services of Mr. Manon E. Olson as extension advisor.[32]

Railways were completely neglected in the 1951-1956 plan, while in the 1955-1959 plan more than ID 15 million has been alloted to their repair and improvement. Other important allocations under the new plan are some ID 59 million for roads and bridges; ID 45 million for public buildings; ID 9 million for housing; ID 5 million for the airports; ID 6 million for agriculture, forestry and wells; and ID 7 million for miscellaneous projects.

The recommendations on Education and hygiene, which the World Bank's Mission emphasized strongly, as we have seen, received less direct attention than its other recommendations. Allocations for public buildings, housing, and miscellaneous projects do include, however, expenditures on hospitals, schools and so on. Iraq has yet no university, but

> ...Hundred of students have been sent to the United States, the United Kingdom, France, Italy, Australia, Switzerland and Germany, as well as to some of the universities in the Arab world. These students, chosen from among the best graduates of the secondary and technical schools and the colleges, are supported by the government. There are over a thousand Iraqi boys and girls, about a third of them bursary students, in the United States alone. The budget of the office of scientific missions is about three million dollars.[33]

Although Iraq "possesses all the means and institutions traditionally required for a university,"[34] nothing so far has come out of the many reports submitted by national committees and foreign experts in education, which were all favorable to the idea of establishing a university in Iraq.[35]

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32 Ibid., 13.

33 N. Hani, "Higher Education in Iraq," Middle East Journal, No.4, VII, (April, 1956), 132. Mr. Hani is cultural attaché at the Embassy of Iraq in Washington.

34 Ibid., 130.

35 Ibid., 129-130.

In short, the new five-year plan, very much like its predecessor, emphasizes long-range capital schemes, such as flood control and irrigation projects, but is less concerned about land reform, improvement of agricultural techniques, the promotion of private enterprise, and private capital formation.

PART III

APPRAISAL AND CONCLUSION

God will not change
the condition of men
until they change
what is in themselves.

Koran, sura 13:12.

CHAPTER NINE

APPRAISAL

In an article on the Bretton Woods agreements written during the year the agreements were drawn, Professor John H. Williams dismissed the World Bank in one sentence: "...I have not been able to see how such a bank can be international, except in a formal or limited sense, in a world containing only one large creditor and many debtors."[1]

The United States is the largest contributor to the working capital of the World Bank. However, since 1948, the other member nations have been continuously increasing there share of its working capital. Since its establishment, the World Bank has raised $72 million through securities sold or committed for sale to private investors. Fifty-seven per cent of these sales was purchased by private investors outside the United States. About 45% of the bonds outstanding as of June 1956 was owned also by investors outside the United States.

In case of defaults of loans, the World Bank will spread the loss over all member nations proportionately to their subscription. The sharing of the loss by all member nations will encourage the creditor nations to lend. The member countries are liable up to 100% of their quotas. This guarantee to share the loss has also made the World Bank's bonds easier to float. During his opening remarks at the First Meeting of the Second Commission on the Bank, July 3, 1944, Lord Keynes said that "Without some supporting guarantee...loans which are greatly in the interests of the whole world, and indeed essential for recovery,...may prove impossible to float."[2]

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1 John H. Williams, "The Postwar Monetary Plans", American Economic Review, Papers and Proceedings, XXXIV, (March, 1944), 372.

2 Lord Keynes, "The Bank for Reconstruction and Development", The New Economics, ed. Seymour Harris, (New York, 1947), 398.

The United States could have carried the whole burden of international investment for economic development by enlarging the scope and the resources of the Export-Import Bank and the Point Four Program. Channeling funds for economic development through an international institution such as the World Bank, however, has the following advantages. First, an international agency will be looked upon with less suspicion and its advice will be more readily accepted. Some of the underdeveloped countries that have declined to cooperate with United States Government sponsored development programs have cooperated closely with the World Bank in planning and executing such programs-- Syria is a case in point. Second, an international agency such as the World Bank will be able to obtain part of its capital from other countries, and also gather an international pool of experts and body of knowledge about particular problems. If such an institution could coordinate its activities with other government sponsored agencies such as the Colombo Plan, the Export-Import Bank, Point Four, etc., then there would be less chance of program overlapping and waste of resources. Third, however minor the role that the other members play in such an international organization as the World Bank, they feel a sense of contributing to the success of its operation and thus give it international strength and prestige. This prestige could be used to advantage in solving international misunderstandings.

International investment had to be administered by an international organization. The depression of the 1930's had shaken the confidence of private investors in international investment. There was reckless borrowing and also reckless lending. It was believed that private capital would not flow after the Second World war to the areas where it was most needed. Those areas were the war devastated countries of Europe and the underdeveloped countries of Asia, Africa, and Latin America.

The development of the underdeveloped countries has political as well as economic motives. The economic motive consists of using international investment as a palliative to cyclical unemployment and secular stagnation, and closing the "dollar gap." World Bank lending would increase foreign expenditures on American exports, offset American savings, and contribute to the closing of the "dollar gap." Too much, however, should not be expected of the World Bank in these areas. First, in times of crisis, the amount of investment needed to offset unemployment in the United States is huge and the capital of the World Bank is comparatively small. Second, the World Bank cannot adjust its lending activity according to short-run fluctuations in the United States. Its lending policy is slow and usually it takes months before a loan is made. Third, there is the problem of the backflow of interest and the repayment of capital. If this backflow exceeds the outflow of new investment then there will be an adverse effect on employment in the United States.

The unemployment problem can be solved successfully only through domestic monetary and fiscal measures. The World Bank should not be written off as a failure if it proves inadequate as a means of solving the unemployment and the secular stagnation problems, and filling the "dollar gap". The political aim of checking the growth and spread of Communism also cannot be successfully carried out by the World Bank. The World Bank will stand or fall by what it contributes to the economic development of the underdeveloped countries. The yardstick is the increase in per capita income.

The World Bank assists the economic development of member countries by facilitating the investment of capital for productive purposes.

Originally the foreign capital required by the underdeveloped countries was expected to come from private investors. The World Bank's function was only to provide a catalyst by which production could be generally stimulated and private investment encouraged.

> In the judgment of the Bank, foreign development financing should preferably be derived mainly from private sources. Over the long run, it is only the sustained flow of private capital that can provide external financial assistance in amounts sufficient to make a significant inroad on the world's development needs. In particular, it is plainly desirable that direct private investments, on mutually fair terms, be the major source of foreign capital for development....[3]

So far the World Bank has failed to induce private capital to move into underdeveloped areas in substantial quantities. This failure was recognized by the World Bank itself. "Projects in electric power and transportation have plainly met the Bank's tests of usefulness and urgency; and in general private capital has not been available for projects of this type, even when they were revenue producing."[4] Even light consumer goods industries did not attract private entrepreneurs. "...Private international investments tend at present to be concentrated in a relatively few countries and industries, particularly the raw material and foodstuff export industries; investments in production for the domestic markets of the under-developed countries are less favoured."[5]

Has the World Bank sufficient resources to enable it to carry out economic development effectively? The disbursements of the World Bank as of June 30, 1956, amounted to only $1,964 million, made up of 150 loans. It was estimated by the United Nations Department of

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3 International Bank for Reconstruction and Development, Fourth Annual Report 1948-1949, (Washington, 1949), 13.

4 International Bank for Reconstruction and Development, Tenth Annual Report 1954-1955, (Washington, 1955), 31.

5 Ibid., 31.

Economic Affairs that more than $19 billion per year of savings will be required to raise per capita national income of the underdeveloped countries by 2 per cent annually.[6] Slightly more than $5 billion would come from domestic savings and about $14 billion would have to come through foreign borrowing.[7] If these estimates are anywhere near the right figure then the lending operations of the World Bank in the last ten years have been very modest. The World Bank has pointed out, however, that the underdeveloped countries are incapable of absorbing capital rapidly. "Perhaps the most striking single lesson which the Bank has learned in the course of its operations is how limited is the capacity of the underdeveloped countries to absorb capital quickly for really productive purposes."[8] "It came as something of a surprise to us,"recalled Eugene Black, the World Bank President, "to find that the tough problem wasn't going to be to raise the money for good projects, but to find projects good enough to warrant our lending."[9] Underlying many of the World Bank's lending policies is the provision of the Articles of Agreement that "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development."[10]

Too narrow an interpretation of this specific projects provision, however, has been a limiting factor to greater lending by the World Bank. Before a loan is made, the World Bank conducts investigations

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6 United Nations, Measures for the Economic Development of Underdeveloped Countries, (New York, 1951), 76.

7 Domestic savings would be increased as national income increases.

8 IBRD, Fourth Annual Report 1948-1949, 8.

9 Quoted by Robert L. Heilbroner, This Growing World, (New York, 1956), 19.

10 See pages 9 and 38 above.

to satisfy itself that the projects it is asked to finance are economically and technically sound and of high priority nature. To avoid transfer problems, the World Bank gives priority to projects that will either be capable of earning foreign exchange or reducing the country's imports. Some critics of the World Bank have argued that it should

> . . . build up the capacity of underdeveloped countries to produce goods and services. The Bank should start from this point, rather than from a measurement of foreign currency needs. And, if development succeeds, the transfer problem of meeting the debt charges should take care of itself. At present, the Bank puts the cart of foreign exchange difficulties before the horse of economic development.[11]

In the opinion of the World Bank, however, these project investigations "have frequently resulted in more effective utilization of the resources both of the Bank and of its borrowers."[12] The World Bank also argues that its projects investigations may have a very valuable secondary effedt on the underdeveloped countries by teaching them to apply "the same standards to their investments projects which they finance from their own resources."[13]

Another obstacle to the full utilization of the World Bank's resources has been the guarantee requirements from member governments for loans made to private industry in their countries. "The provision which requires a government to guarantee a loan contracted by a private undertaking in its country may involve both governments and companies concerned in a relation they would prefer to avoid."[14] The whole system of guarantees for foreign investments has been criticized on the grounds that it raised complicated problems and difficulties. Here we shall be

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11 UN, Measures for Economic Development, 83.

12 IBRD, Fifth Annual Report 1949-1950, (Washington, 1950), 9.

13 Ibid., 9.

14 Organization for European Economic Co-operation, Report on International Investment (Paris, 1950), 88.

satisfied with only enumerating some of the more obvious problems and difficulties of the guarantee system. First, there is the problem of deciding what risks should be guaranteed. Not all risks can be guaranteed, for risk-taking is part and parcel of private enterprise. Second, there is the difficulty of defining investment. Third, there is the question of the rate of exchange at which convertibility guarantees should be made good. Fourth, in case of balance of payment difficulties, should the foreign investor be allowed to convert his profits into hard currency and thus cause adverse effects on the economy of the underdeveloped country? Fifth, government guaranteed loans may lead to the intervention by the investors' government in the affairs of the underdeveloped country. Even the mere belief that such an intervention exists is enough to lead to charges of imperialism and exploitation which are detrimental to the expansion of international trade.[15]

The World Bank has tried to surmount the obstacles (imposed upon it by the guarantee provision) to greater lending to private industry by making funds available through intermediary institutions. In Ethiopia, India, and Turkey, the World Bank has helped to establish and finance new credit institutions able to investigate projects on the spot and to lend without guarantee, largely to private industries.[16]

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15 For further discussion of these problems see William A. Brown, Jr., "Treaty, Guaranty, and Tax Inducements for Foreign Investments, "American Economic Review, Papers and Proceedings, XL, No. 2, (May,1950), 486-494. Also, Yuan-Li Wu, "Government Guarantees and Private Foreign Investment, "American Economic Review, XL (May, 1950), 61-73.

16 IBRD, Tenth Annual Report 1954-1955, 32.

In 1956, the World Bank created an affiliated corporation, known as the International Finance Corporation, which "is going into the private enterprise business and will help to finance projects which, because they are not governmental or do not rank for governmental guarantees, are outside the scope of the bank," but , "the new corporation will not be an easy lender...and it will lend on participating terms." 17

The World Bank demands, except in special cases that its loans be used for importing the essential materials required for the economic development projects specified. All local expenditures are required to be financed by the local government with local currency. This is another limiting factor to greater lending by the World Bank.

The World Bank believes, however, that their insistence on member countries financing local expenditures could encourage them to carry out effective measures which would direct domestic savings to more productive use. The experience of the World Bank confirms the statment that has often been made that "...one of the most essential tasks facing the less developed countries is to take more effective measures to channel their limited domestic savings into the most productive investment projects."[18]

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17 "Bretton Woods", The Economist, (September 29th, 1956), 1067.

18 IBRD, Fifth Annual Report 1949-1950, 10.

The question resolves itself in the end to who should carry the greater burden of economic development, the World Bank or the underdeveloped countries? The underdeveloped countries want the greater burden of economic development to be carried by the World Bank. The World Bank, however, insists that the major effort should come from within the underdeveloped countries. There has also "developed a conflict of views as to the purpose of foreign investment, with the more advanced countries looking toward the development of raw materials and the less advanced countries looking toward diversification, industrialization and social welfare."[19] W. H. Singer traces this emphasis of the underdeveloped countries on industrialization to their belief that specialization in the export of food and raw materials has shifted most of the cumulative effects of investment from the underdeveloped countries to the developed countries and that agriculture offers less scope for technical progress. He also cites what he refers to as a "historical fact" that ever since the 1870's the trend of prices has been heavily against sellers of food stuffs and raw materials and in favor of the sellers of manufactured articles.[20] The validity of these arguments has been questioned.[21] Whether the arguments are valid or not, the fact remains that there seems to be a strong trend in the underdeveloped countries toward industrialization. Some economists have noticed that behind these arguments

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19 John H. Williams, Trade not Aid: a Program for World Stability, (Cambridge, Mass., 1954), 31.

20 H. W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries", American Economic Review, Papers and Proceedings, XL, NO.2, (May, 1950), 477.

21 See Jacob Viner, International Trade and Economic Development, (Illinois, 1952), 141-147.

of the underdeveloped countries there is a demand, often unconscious, for international egalitarianism and the international redistribution of wealth.[22]

The gap, then, between the aims and aspirations of the underdeveloped countries and the plans of the World Bank for them is very wide. The advocators of more liberal lending by the World Bank often end up by presenting a plan for the establishment for a new and more dynamic international institution to replace it. The new international institution would have more resources at its disposal, lend more generously, not rely on private investors, and in short carry out economic development at a much faster rate than the World Bank is now doing.[23]

The World Bank has not confined its activities to the lending of foreign exchange; it has also rendered various advisory services to its members, the most important of which is the general survey missions. It is too early to appraise this aspect of the World Bank's work. The recommendations of the missions would require years to be translated into projects and many more years before the projects bear fruit and affect the economy. However, the World Bank's advisory services may prove to be of lasting value and they deserve attention. "Over and above any part that international organizations may play in organizing these direct aids to industrial development, they are often in a unique position to facilitate the exchange of ideas, to disseminate the lessons

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22 George Halm, "The Dollar Crisis, Causes and Cure", a book review, The Review of Economics and Statistics, XXXIV, No. 3, (November, 1952), 389.

23 Cf., T. Balogh, The Dollar Crisis, Causes and Cure, (Oxford, 1949), as reviewed by George Halm, 388-389. Also, UN, Measures for Economic Development, 82-88.

learned by individual countries in the course of their industrialization programmes and to engage in comparative research.[24]

The Report on the economic development of Iraq tells a great deal about the economy of the country. As a book of information it is no doubt valuable; Iraq needed such a book for a long time. The Report on Iraq is the result of three months of extensive traveling in the country by fifteen experts on such subjects as economics, irrigation, flood control and drainage, industry and power, transportation, agronomy, community planning and housing, public health, agriculture, education, public administration, and animal husbandry. The Report, however, would have been more inclusive and significant if The Mission had had more time at its disposal and if it had numbered among its experts an anthropologist, a sociologist, a psychologist, and a political scientist. As it is, the Mission had to draw on the reports of other missions on specific topics, and little is included about the people of Iraq, their saving habits, their investment habits, their working habits, etc. Surely economic development demands more than economic analysis, engineering studies, and administrative and financial reforms. The Report recognizes this but it leaves it for others to weave it into the overall pattern of economic development.

Some projects for the utilization of the Tigris and the Euphrates Rivers have been studied and discussed for decades. The Habbaniya dam on the Euphrates and the Wadi Thartar dam for diverting the flood waters of the Tigris--both of which were complete in 1956--were first

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24 United Nations, Progress and Programs of Industrilization In Under-developed Countries, (New York, 1955), 93.

suggested in a report on irrigation in Mesopotamia which Sir William Willcocks made to the Turkish Government in 1912.[25] It is customary in such cases to cite the need for funds as sufficient reason for the neglect of such vital projects. I am not convinced.

The Report notes that "Although the establishment of the Development Board and the large prospective increase in oil revenues appears to put Iraq on the threshold of an era of potentially great progress, the Mission discovered very little awareness of these developments among officials both at the center and in the provinces."[26] The Mission's recommendations to remedy the lack of enthusiasm shown by the government officials of Iraq consists of such measures as decentralization, training, and increased salaries. Here, too, I am not convinced. To arouse and capture the enthusiasm of the people, which to me is the crux of the problem, something more than a mere change in organization and wage structure is needed.

> If we set out to explain the vigorous response of a particular people we call to our aid all that we can find in biology, in geography, and in psychology, but in the end we are forced to admit that this is really still one of the unsolved mysteries of the universe. To this writer the most plausible of all explanations is the accident of leadership. If a community is fortunate to have a good leader, born at a crucial time in its history, who catches the imagination of his people and guides them through a formative experience, he will create traditions and legends and standards which weave themselves into the thinking of his people, and govern their behaviour through many centuries.[27]

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25 United Nations, Economic Development in the Middle East 1954-1955, (New York, 1956), 6.

26 International Bank for Reconstruction and Development, The Economic Development of Iraq, (Baltimore, 1952), 79.

27 W. Arthur Lewis, The Theory of Economic Growth, (London, 1955), 55.

Iraq does not now need to borrow foreign exchange to pay for its development programs. Since 1950, 70% of the oil revenues has been allocated to the Development Board of Iraq to carry out major economic development projects. Both the six-year plan, which was discontinued in 1955, and the five-year plan which took its place were greatly influenced by the Mission's recommendations. Both emphasized long-term capital schemes, such as dams, bridges, and irrigation networks. If these schemes are successfully carried out, by 1975 cultivable land would double in area while population would only increase by about 40%. Both the development programs were less definite about land and tax reforms. Political obstacles stand in the way of such reforms. There was also less concern about higher education, hygiene, and the private sector of the economy, such as the promotion of private enterprise and private capital formation. There is little doubt that after this five-year plan is over, a new five-year plan will be formulated to take into consideration some of the projects which were neglected in the present five-year plan; one of the new projects might be the establishment of a university in Iraq.

Iraq is on the threshold of a great economic change. Millions of Iraqi dinars are being spent each year to provide more land for cultivation, more jobs, and more goods and services. What is needed now is a leader who can capture the imagination of the people and arouse in them a fervor which is now lacking.

Five-year plans will take Iraq a long way, but there will still remain, for Iraq, a long way to go.

CHAPTER TEN

CONCLUSION

Compared with the standards of highly industrialized nations, the World Bank's contribution to economic development has been modest. The World Bank, however, is satisfied if its activities show tangible results over a long period of time. The projects of the World Bank "constitute important aid to production which should be useful over a period of years--in some cases, half a century or more."[1]

Although not agreeing with these who advocate direct handouts of "loans" by the World Bank and the redistribution of international wealth on egalitarian principles, I feel that the World Bank's lending and advisory policies should be modified on the following lines:

(1) The World Bank has been charging a guarantee commission of 1 per cent per year since it was established. The revenues from this commission are used to cover losses resulting from the World Bank's lending activities. After ten years of successful lending, the World Bank should reduce the guarantee commission considerably, for it adds to the repayment burden of the borrowers and thus widens the "dollar gap."

(2) The loans of the World Bank should include, as far as possible, the local expenditures on the projects as well as the foreign expenditures on the imports of essential materials required. The better utilization of the underdeveloped countries' domestic savings, which the World Bank wants to encourage by letting the underdeveloped countries finance the local expenditures, should follow economic development rather than come before it.

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1 International Bank for Reconstruction and Development, Tenth Annual Report, 1954-1955, 33.

(3) Economic development depends as much on education, health, the improvement of agricultural methods, etc., as on dams, bridges, irrigation projects, etc. The World Bank should make loans for the financing of such non-revenue earning projects, such as schools, hospitals, training centers, housing, etc. Such loans could be financed from the World Bank's surplus fund and on a long-term basis.

(4) Private foreign investment has failed to supplement the investments of the World Bank in the underdeveloped countries. This, together with a more liberal interpretation of the provisions of the Articles of Agreement, will neccessitate an increase in the World Bank's working capital. This can be achieved to a degree, if the member countries agree to the use of the 18% subscriptions paid up in their countries' own currency. This would also bring the World Bank nearer to being an international institution.

(5) The lending activities of the World Bank would be more successful if "the disequilibrating effects of American predominance"[2] could be overcome. This goal could be reached by a better balance of international trade through a reduction of tariffs, especially in the United States.

> The creditor country must also be a liberal trader. The great British free market was what made possible a viable system of multilateral trade even though other countries were protectionist in greater or less degree. The parallel today would be for the United States to remove all tariffs and obstructionist customs procedures, while deliberately permitting discrimination against itself until a better balanced world can be achieved. But for a country with a long protectionist tradition, where the foes of lower tariffs are still highly organized and powerful, and those who would gain most are unorganized, this will be at best a slow process.[3]

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2 John. H. Williams, Trade not Aid: a Program for World Stability, (Cambridge, Mass., 1954), 21.

3 Ibid., 28.

(6) The World Bank's missions would do well to include among their experts a psychologist, an anthropologist, a sociologist and a political scientist. These experts might, however, be reluctant to prescribe any positive program of action.

(7) The vigorous response of a people to a development program is very essential for its success, especially if the program is of immense dimensions such as the Iraqi development program. Economic development programs will contribute to economic development and progress only through the actions, reactions, and interactions of the people. The governments of the underdeveloped countries must pay more attention to this phase of economic development.

In modifying its policies along the lines suggested, the World Bank does not run the risk of becoming an international institution for charity. It will still be able to distinguish between credits and grants and by so doing it will preserve "itself as a sound financial institution and, as it now stands, it is therefore an international asset of no small value."[4]

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4 Gunnar Mydral, An International Economy, Problems and Prospects, (New York, 1956), 115.

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